Article from:

The Actuary

May 1998 – volume 32 - Issue 5

Difficult questions

SAVER summit looks at retirement needs and savings plans

by Anna M. Rappaport
1997-98 SOA President

I had the privilege to serve as a delegate to the National Summit on Retirement Savings on June 4-5 in Washington, D.C. During my year as SOA president, I have chosen to focus attention on challenges related to an aging society. The summit was a U.S. effort aimed in that direction.

A number of actuaries were among the summit's 200 delegates. At times we have been concerned that issues in actuaries' areas of expertise did not have actuarial input, but we were well represented at this event.

The summit focused on the implications of low savings rates on the aging of America and was designed to help policy makers and all Americans think about ways to increase retirement savings. During the opening session, Congressional and administration leaders joined in showing strong support for savings. President Bill Clinton showed his support by hosting a White House reception for the summit participants. This congressional and administration support for the summit was very exciting.

Alexis Herman, U.S. Secretary of Labor, hosted the summit for the administration. She expressed particular concern about retirement resources in light of the needs of women and minorities. Small business also was targeted, because very few small employers now sponsor retirement plans while the vast majority of large companies do. This is especially problematic since total employment is shifting away from large companies to small ones.

The summit was organized in accordance with the federal SAVER legislation. (The SAVER Act — "Savings are Vital to Everyone's Retirement" — became law in November 1997 to encourage retirement savings through the impetus of public-private sector partnerships.) It was an opportunity to draw public attention, through coverage by the news media, to the need for more retirement savings. It was also an opportunity to get people with very

different perspectives to provide input on the issues surrounding low savings rates. The input was recorded, but how it will be used remains to be seen. Two hopeful signs: the American Savings Education Council is preparing a report for Congress, and the congressional leaders most involved with pension legislation participated in the summit.

The delegates represented many different groups, and as such are in a position to influence action in the private sector and to provide input to the public sector. They had very different opinions. Background material came from a briefing book distributed to all delegates and from the opening speeches. Some groups, including the American Academy of Actuaries, also distributed material to the delegates. Breakout sessions then searched for ideas and opportunities to help increase retirement savings. There was much informal discussion in the hallways and during coffee breaks. This article is based on my perceptions; it is not a formal summary of the meeting, although one is expected to be forthcoming.

Problems discussed included:

- The low overall savings rate at present, relative to what is needed, compared to historical levels and to savings in other countries
- The leakage of retirement funds as lump-sum payments are used for purposes other than retirement
- The low rate of retirement plan sponsorship by small businesses
- Where voluntary plans are offered, the low participation rate of individuals earning less than $50,000
- The difference in economic status among groups of the elderly, with women and minorities being considerably less well off than other groups

Some presentations highlighted the historical role of unions in helping to secure pension coverage. The experiences of unions offer useful information for other large organizations, such as major corporations. James Ray, partner in the Washington, D.C., law firm of Connerton & Ray and a specialist on joint labor-management multiemployer plans, focused on defined benefit plans and how they do a much better job than defined contribution plans in providing regular retirement income. Ann Combs, principal, William M. Mercer Incorporated, focused on women and minorities and the link between earnings, labor force participation, and benefit levels. She also pointed out that women are more likely to be employed by small businesses, which have a much lower rate of plan sponsorship.

I have been personally very interested in the issues related to women and had the privilege of serving on a study group on women's retirement issues convened by the House Committee on Aging in 1992. Several study group members were delegates to the summit. For me, it is sad to report that the issues we focused on in 1992 are no different today, and some conditions have worsened.

The summit offered an opportunity for many from the private sector to express their views on regulations and the accompanying challenges. For large employers, the regulations are a hurdle and somewhat costly, but they do not stop companies from offering retirement plans. More than 80% of employers with over 1,000 employees sponsor plans. In contrast, fewer than 15% of the smallest companies sponsor plans; the regulations are a critical hurdle, particularly for defined benefit plans. Members of Congress committed to retirement savings are working to reduce some of the regulatory barriers. While regulation and taxes explain part of the low participation, the economic challenges facing small business are also important. New businesses have a high rate of failure, and nothing done for pensions will change that. Easier access to IRAs was seen as a way to compensate.

Discussions on lump sum distributions showed much disagreement. There is concern about leakage, but at the same time, many feel that people should have the right to use their money any way they want. There is disagreement about whether or not using money to buy a house will support stronger retirement assets. This issue also was discussed by the 1992 study group.

Another contentious issue was one related to the plight of lower-income individuals. Some delegates felt that it was unrealistic for people with incomes below a certain amount to save, whereas others felt that education, incentives, or both would work. It was clear that ideas about an appropriate social safety net, while not discussed in the sessions, were radically different. Those whose primary concern was adequate retirement resources for minorities, women, and lower-income persons see the safety net as absolutely vital.

We saw some exciting examples of good communication about savings programs, but we also heard some warnings from the audience — specifically, that we need to be careful not to use too-high rates of return in our calculations and, thereby, over-promise wealth through saving. I also saw some disconnects in the discussion about communication: An employer example presented was closely tailored to the culture of the company, while the discussion focused on generic, widely available material; the employer clearly stated that success was tied to communicating for the culture of the company.

Did the summit line up well with my view on these issues? My answer has to be "yes" in some areas, but "no" in others. I think savings education is very important and that people must save more. Policy changes to incent more savings also may help us meet objectives. Here, we must be clear about our objectives. If our objective is to raise the aggregate of national savings, incentives could do that, but the most promising changes may be targeted at the higher-income 50% of the population. If our objective is to improve well-being in retirement, particularly for those not served well by the system today, we need to look to very different changes. Our first goal must be to improve the wages and labor force participation of that part of the population and then to focus on incentives that will encourage more benefits and savings for that group. Raising limits on tax deferrals addresses the first objective but not the second. We must not pretend that savings education, tax incentives, or both will remove all the challenges to retirement security. The safety net is very important.

There was some focus on defined benefit plans in the opening discussion, but not much in the breakout group I attended. These plans deserve more discussion because they offer a way to provide a base layer of benefits for employees with long service. (Of course, one key question is whether many people will reach long service with a single employer.) There was some focus on multi-employer plans, and certainly this is a concept to consider when exploring ways to offer security to people who stay in a profession but change employers. TIAA-CREF was suggested as a model.

Anna Rappaport spoke with several national leaders at the SAVER summit concerned with meeting U. S. citizens' retirement needs. She is shown here with Rep. Earl Pomeroy (D-N.D.).

Several members of Congress focused on their attempts at regulatory and legislative change. There is certainly support, in at least some quarters, for positive change in pension law.

The summit was a personally interesting experience, and I was proud to be part of it. Delegates have gone home with the impressions of the summit, and there are many pension policy proposals being considered in Washington. I hope that when the next SAVER summit is held two years from now, we can say that the 1998 summit accomplished good results.

Anna Rappaport is principal, William M. Mercer Incorporated, Chicago. She can be reached by e-mail at *anna_rappaport @mercer.com*.