

# THE RETIREMENT 20/20 MEASUREMENT FRAMEWORK

The Measurement Framework was developed as a key Retirement 20/20 tool in 2008. As part of the Retirement 20/20 initiative, we realized early on we needed to benchmark any proposals we developed for a new retirement system, as well as the proposals of other and existing systems. Only by benchmarking can we determine the extent to which current systems meet the needs of stakeholders, and how various proposals compare to status quo and each other.

Development of the Measurement Framework was based on the principles developed in the Retirement 20/20 process; we hope the framework helps us communicate our findings to pension actuaries, other retirement professionals, and other stakeholders (including the media) in order to build grassroots support for our work. The framework focuses on how well each proposed design addresses the needs, risks and roles across 34 dimensions for the four stakeholder groups: society, individuals, employers and the markets. These 34 dimensions are boiled into four summary ratings for each stakeholder which are shown together with ratings related to four of the key themes that cross stakeholders:





- Does the plan self-adjust to meet changing economic and demographic conditions?

- Does the plan align stakeholders' roles with their skills?
- Does the plan consider new and emerging norms for work and retirement?
- Does the plan align with markets (use market hedging and pooling mechanisms effectively)?

Ratings are done using a five-color scale based on the green-yellow-red spectrum. The perfect plan would be green (the highest rating) for each of the 34 dimensions; however, stakeholders have competing needs and risks, so it's not possible to design a plan that rates green for every dimension. Measurement frameworks also let us know where a plan violates (by not meeting) a particular stakeholder need or risk when it scores red (the lowest rating). Any plan that has too much red will not work because some basic needs for a stakeholder are being violated. The measurement framework helps us figure out how to balance needs and risks across stakeholders, and determines explicitly where tradeoffs are being made.

Due to the complexity of the framework, an executive summary is currently under development. Below is a table from that summary. **A**

## Measurement Framework Executive Summary Table Traditional Final Pay (Corporate-Sponsored) DB Plan Draft<sup>1</sup>

<p><b>Society</b></p>  <p>Plan protects longer-service workers well (less so short-service workers), avoiding the need for more government-sponsored benefits.</p>	<p><b>Individuals</b></p>  <p>By transferring risks of retirement to the employer and its shareholders, the plan does a good job of handling the risk of individuals.</p>
<p><b>Employers</b></p>  <p>The long-term nature of the commitment does not work well for many corporate sponsors. Many younger employees do not value benefits.</p>	<p><b>Markets</b></p>  <p>In theory, plans can be hedged to remove risk, although it is not commonly done in practice. Plan often transfers risk to shareholders.</p>
<p><sup>1</sup>The executive summary is under development at the time this article is going to press; this draft table may change.</p>	