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Challenges to Today's Retirement System: A Delphi Survey Update

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Retirement 20/20

ENVISIONING THE FUTURE

As part of the recent "Re-envisioning Work and Retirement in the 21st Century" symposium, held in May in Washington D.C., attendees completed a Delphi survey covering challenges to today's retirement system. We wanted to use the symposium to start a conversation with actuaries and other retirement practitioners on the state of the retirement system today, and what we see as the challenges to the system in the future. As part of the "Retirement 20/20" project, we're going to continue to use the Delphi survey to gather information from a wider range of experts and use the results of the study to start conversations about what we need from a 21st century retirement system.

In a Delphi study, a group of subject matter experts are asked about future states: what might, should or could happen. The idea is that while these subject matter experts as individuals may have biases or incomplete information, collectively their knowledge and information improves. In the analysis of the survey, as with any survey, the researcher then looks for patterns in responses. If the group of subject matter experts clusters around certain answers, then there is probably some truth in their answer. This works best when the individuals each have a lot of knowledge but they don't all have the same knowledge or similar biases. For example, asking a national cross section of knowledgeable baseball fans "Who will play in the 2007 World Series?" might get you a pretty good result, but asking only Boston-based fans might overstate the chances that the Red Sox will still be playing in October.

What's unique to a Delphi study is that once a first round of results has been obtained, subject matter experts are resurveyed with first round results at hand. This gives an opportunity for the subject matter experts to refine their estimates based on the information provided by the other experts. This is important because the Pension Section Council would like **you** to be part of the second round: the survey is available electronically at *www.retirement2020.soa.org*. Note this survey is intended to mimic a Delphi study, but as we're not doing it with the formality of a typical Delphi study, we'll refer to it as a Delphi survey.

We asked questions along four broad categories: what risks should be pooled, what should any retirement policy framework look like, what changes to the retirement system are necessary and their urgency, and what are the threats to the retirement system? Answers ran the gamut and showed we have no consensus, even within our small sample of actuaries. On some things the answer was clear; for example, there was strong agreement that the health care system needed fixing, but there wasn't uniform agreement as to how the system should look, going forward. This helps us identify that there are lots of open areas for discussion, but, it also makes it very important for us to hear from you.

A complete report with more detail of first round results (and the survey for you to take!) is also available on the Retirement 20/20 Web site (*www.retirement2020.soa.org*). Please note that we've made revisions to the survey based on feedback from those who took it, including rescaling the range of choices. For ease in comparability, the first-round results have been rescaled to match the new rating system.

What Risks Should Be Pooled?

Forty-one people took the survey in round one, 35 of them actuaries. Approximately 73 percent worked at private, for-profit institutions with another 15 percent at universities. About 40 percent were "baby boomers" and 10 percent had already reached age 65. Sixty-six percent were male, 34 percent were female.

Since an actuary wrote the survey, the first question was on risk pooling: to what degree should certain retirement risks be pooled? We looked at seven major retirement risks: retirement timing (the risk you retire before you expect), inflation, interest rate (with regards to annuity purchase or taking lump sums), market returns, longevity, long-term care and health care. Figure 1 shows the results:

- Respondents were pretty clear that three risks ought to be fully or partially pooled: health (92 percent), longevity (85 percent) and long-term care (74 percent).
- Forty-three percent felt that retirement-timing risk should be borne mostly or entirely by individuals, 30 percent thought individuals should mostly or entirely bear market risks and 25 percent thought individuals should mostly or entirely bear inflation risk.
- Respondents generally felt individuals could or should be allowed to decide what risks to bear, except in the case of health care, longevity and long-term care risks where respondents strongly favored pooling.

What Should Retirement Policy Look Like?

The next series of questions looked at what role the employer should play in any retirement system. Not surprisingly, everyone who took the survey (which was heavily biased toward consulting actuaries) thought the employer should play some role, although respondents split as to whether that role should be mandatory (44 percent) or voluntary (56 percent).

Respondents were also split as to whether participation should include any minimums. There's been much controversy in the United States about the role of

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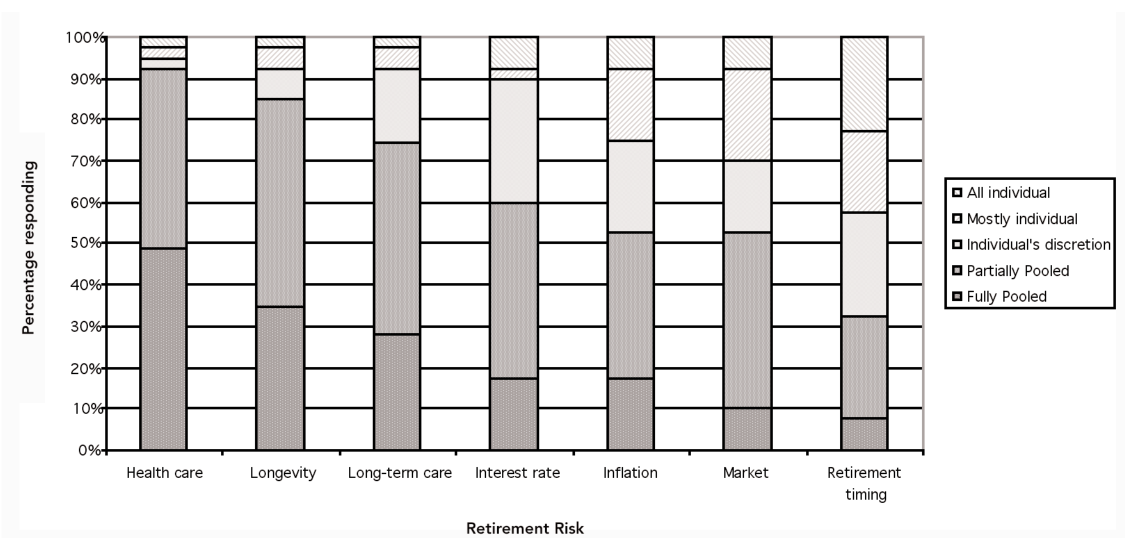
Figure 1

To What Degree Should These Risks Be Pooled in a Retirement System?



minimums in the current system (e.g., in coverage and amount of benefits). Of the 56 percent who preferred a voluntary role for employers, only 44 percent of those felt that should include a minimum, and of the 44 percent who preferred a mandatory role for employers, 61 percent of those thought that should include employer minimums.

The next question in that series considered what role the employer should have in any retirement system. Only seven of 41 respondents thought the employer's role should be limited to acting as a conduit to plans maintained by others, sponsoring plans but bearing no cost, or sponsoring plans but bearing only administrative costs. The other 34 were split between those who thought the employers should bear administrative and benefit related costs, similar to a defined contribution plan (46 percent) and those who thought the employer should bear administrative, benefit and risk-related costs, similar to a defined benefit plan (54 percent).

The next question asked what role government should play in providing retirement benefits.Respondents clearly favored a basic level of benefits for low-paid and middle class (78 percent), while 17 percent preferred that the government provide minimum assistance for low-paid only.

Necessary Changes to Retirement System

We then asked what level of urgency people saw in terms of making changes to the retirement system. They were asked about specific changes to the system and were

Figure 2

Which of the following are necessary changes to the retirement system?

Rate the urgency of change from 1 (not at all urgent to 5 (extremely urgent). Rate as 0 for "not a necessary change"	Percentage ranking as "0"	Urgency ranking (including those ranking 0)		
		Mean	Median	Standard Deviation
Bring Social Security into balance	5%	3.7	4.0	1.4
Rework Social Security	21%	2.3	2.0	1.8
Raise Social Security normal retirement age	5%	3.9	4.0	1.3
Raise Social Security early retirement age	29%	2.6	3.0	1.9
Mandatory retirement savings	18%	2.9	3.0	1.7
Increase coverage in DB plans	16%	2.8	3.0	1.7
Increase coverage in DC plans	19%	2.8	3.0	1.8
Raise private system normal retirement age	24%	2.7	3.0	1.8
Formalize/encourage phased retirement	3%	3.6	4.0	1.3
"ERISA"-fy DC auto-pilot	18%	2.7	3.0	1.5
Ease DC plan annuitization (full/partial)	8%	3.5	4.0	1.3
Force partial annuitization	21%	2.8	3.0	1.8
Allow step-up benefits (DB)	16%	2.8	3.0	1.6
Fix health care affordability/availability	5%	4.4	4.0	1.2
Restructure long-term care system	3%	3.7	4.0	1.2

asked to rate the urgency of that change using a scale of 1 (not at all urgent) to 5 (extremely urgent) and to use 0 if they felt change was unnecessary. Again, there was a wide range of responses and not always a lot of agreement. Figure 2 shows the mean, median and standard deviation of responses.

Fixing health care affordability and availability was the most urgent issue identified by survey participants (average urgency ranking 4.4). Following health care were raising the Social Security normal retirement age (3.9), bringing Social Security into balance by making

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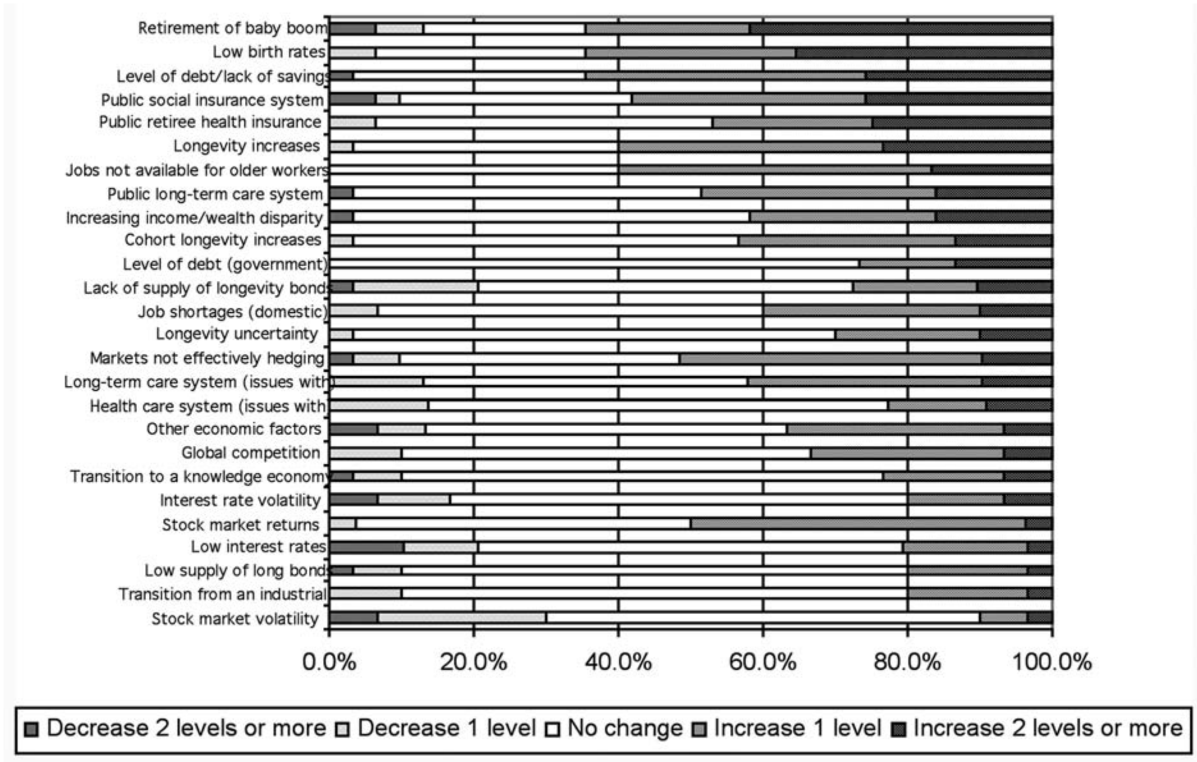
Figure 3

Rate the threat these problems pose to the retirement system:

Rate from 1 (ignorable) to 10 (perfect storm) Rate as 0 for "no threat"	Percentage ranking as "0"	Threat ranking (including those ranking 0)		
		Mean	Median	Standard Deviation
Level of debt/lack of savings (personal)	0%	3.6	4.0	1.4
Level of debt (government)	0%	3.5	4.0	1.1
Global competition	9%	2.7	3.0	1.5
Transition from an industrial economy	9%	2.4	2.0	1.4
Transition to a knowledge economy	12%	2.0	2.0	1.1
Jobs not available for older workers	3%	2.6	3.0	1.2
Job shortages (domestic)	6%	2.1	2.0	1.2
Low interest rates	22%	2.1	2.0	1.5
Low supply of long bonds	11%	2.2	2.5	1.3
Lack of supply of longevity bonds	14%	1.9	2.0	1.3
Markets inefficiencies (retirement risk hedging)	15%	2.4	3.0	1.5
Interest rate volatility	3%	2.8	3.0	1.2
Stock market returns	6%	2.4	3.0	1.3
Stock market volatility	3%	2.7	3.0	1.3
Increasing income/wealth disparity	8%	3.1	3.0	1.5
Other economic factors	4%	2.9	3.0	1.2
Low birth rates	18%	1.9	2.0	1.4
Retirement of baby boomers	3%	2.8	3.0	1.1
Longevity increases	6%	2.6	3.0	1.3
Cohort longevity increases	11%	2.0	2.0	1.4
Longevity uncertainty	6%	2.3	2.0	1.3
Health-care system (issues with)	3%	4.1	4.0	1.0
Long-term care system (issues with)	3%	3.3	3.0	1.0
Public social insurance system	6%	3.0	3.0	1.4
Public retiree health insurance system	6%	3.3	3.5	1.3
Public long-term care system	6%	3.0	3.0	1.3

Figure 4
Distribution of Change in Threat – Immediate future versus 10+ years from now



small changes to current system (3.7), restructuring the long-term care system (3.7), formalizing and/or encouraging phased retirement (3.6) and easing DC plan annuitization (3.5).

A sizable minority felt that some changes were not necessary. Twenty-nine percent felt it was not necessary to raise Social Security early retirement age, 24 percent felt it was not necessary to raise the private system normal retirement age, 21 percent felt it was not necessary to make dramatic changes to the existing Social Security system or to force partial individuals to have some portion of annuitized benefits.

Threats To The Retirement System

Finally, the last question asked of Delphi survey participants was about threats to the retirement system. We asked people to consider certain economic and demographic changes and what level of threat they posed to the system. Again, participants elected "0" if they saw no threat at all, 1 if the threat was ignorable, and 5 if the threat represented the perfect storm.

Participants looked at the threat level immediately and for 10 years from now. This allowed participants to indicate if the threat was constant, declining or emerging. Figure 3 below shows perceived threat in the immediate future. Figure 4 shows the change in the perceived threat from the immediate future to 10 or more years from now.

Consistent with other responses, the highest threat ranking was for issues with the health system (4.1) followed by level of debt/lack of savings for individuals (3.6) and government (3.5). Issues with the public long-term care system (Medicaid in the United States) and the public retiree health insurance system (Medicare in the United States) were each ranked a 3.3. Certain items were not perceived to be an immediate threat by a sizable minority, including low interest rates and low birth rates.

When considering how threat levels change over time certain factors came out as emerging threats. Concerns with the healthcare system top both the immediate and 10+ year list. However, several issues are viewed as being more critical 10 years from now:

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- The retirement of the baby boomers moved from tied to 10th as an immediate threat to tied for 5th in the rankings of threats 10 years from now.
- Low birth rates rose from last (tie for 25th) on the list of immediate threats to a tie for 12th on the list of threats 10 years from now.
- Longevity increases rose from a tie for 14th (immediate threat) to 9th (threat 10 years from now).

Several factors are seen as being less threatening 10 years from now.

- One-third of respondents thought low interest rates would be less of a threat to the system 10 years from now.
- Similarly, they saw the transition to a knowledge economy and the transition from an industrial economy to be less of a threat to the system in 10+ years (30 percent and 27 percent respectively, decreased their threat level).

Other factors aren't seen as changing in regards to the level of threat they pose to the system. Two-thirds or more of the respondents didn't see any changing threat, increase or decrease, from stock market volatility, stock market returns, the market's ability to hedge retirement risks, uncertainty about longevity or the effect of cohort longevity increases.

What Do You Think?

If you're interested in adding your point of view to the survey, you can take it electronically at *www.retirement2020.soa.org*. We want to know what you think too. You're welcome to invite clients, colleagues and others to take the survey as well. We'll keep you posted on what we get from Round 2! ◆