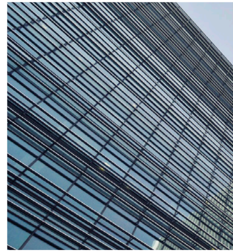

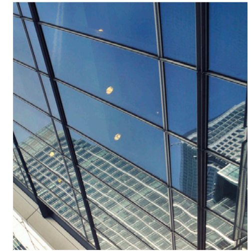
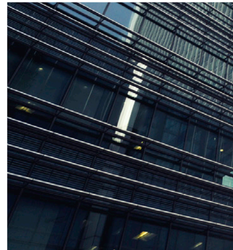

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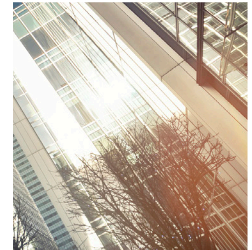

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During the great recession of 2007–09, there were stories of individuals delaying retirement because their 401k (DC) plan balances had been decimated by the decline in equity markets. Back when defined benefit (DB) plans ruled, the stock market had much less influence on retirement decisions. Indeed, early retirement incentives were used for workforce reduction which might be needed during a recession. The Pension Section commissioned a study in 2011 to determine if the replacement of DB plans with DC plans was impacting retirement savings and to quantify workforce management benefits of DB plans.

Between 1996 and 2010, at a time that the numbers of active private sector employees covered by DC plans increased by 59 percent while those in DB plans declined by 21 percent, assets in retirement plans in the United States increased 2.25 times—from 87 percent to 104 percent of GDP. This increase in assets can be misleading since two thirds of 401(k) plan contributions come from the employee while most DB plans are noncontributory. Due to higher annuity costs, the benefits provided by employer contributions declined slightly on a per participant inflation adjusted basis between 1996 and 2010.

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Have an article you think will be of interest to others in the Pension Section?
You can email them to the newsletter editor at *martin.mccaulay@hq.doe.gov.*

CHAIRPERSON'S CORNER

By Aaron Weindling

I have just returned from our Pension Section Council meeting in Phoenix. This was the second in-person meeting since our last election. I found the interaction to be productive and energizing, and I am objective enough about my facilitation skills to take no credit for that. Allow me to report back on some of our discussion topics.

Pension actuaries are a diverse bunch. A part of our session focused on identifying some of the categories to which we belong, then discussing the needs of these groups. Among the classifications that we noted were:

- Private plan or public plan
- Large firm or small firm
- Consultant or plan sponsor employee
- Traditional or nontraditional employment
- Young or, um, experienced

We had quite a few more characteristics, and some of these are spectra rather than binary choices. Although there is no single perfect taxonomy of pension actuaries, we found helpful to consider these distinctions.

Not all of these groups are represented on the council, yet our group of nine is fairly diverse. That's not accidental. As the last election approached, we made a concerted effort to recruit candidates with a broad range of backgrounds. We will do so again this year. If you feel that your perspective is under-represented in Pension Section activities, please consider whether you would be interested in either running for council or volunteering for one of our constituent teams: communication, continuing education or research.

These teams have produced A LOT of stuff over the years, and they continue to make more. At each meeting, at least one council member will declare, "I had no idea that we did that." I still find myself saying that in the third year of my term. This production is, by all accounts, a good thing. But we also need to pay attention to making this output accessible to members. We brainstormed about a variety of initiatives along these lines: podcasts, LinkedIn and other virtual communities, videos, distribution channels through other groups, and other approaches. I remember from years ago a television network's advertising campaign for re-runs. The catchphrase was "If you haven't seen it, it's new to you." We believe that improving the visibility of existing content has the potential to deliver a considerable value. This would complement the ongoing creation and effective distribution of new material.

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Our continuing education team is busy making arrangements for this year's webcasts (six are now planned) and sessions at the 2015 SOA Annual Meeting & Exhibit (October 11-14 in Austin, Texas). The communication team's efforts in producing written publications and podcasts are tireless. And the research team's report included sixteen projects in various stages of development. We also heard from other affiliated groups: the Social Insurance and Public Finance Section, the Committee on Post-Retirement Needs and Risks, and the Pension Finance Task Force.

I ask you to contact me with feedback, suggestions, inquiries about volunteer opportunities, or other matters. ■

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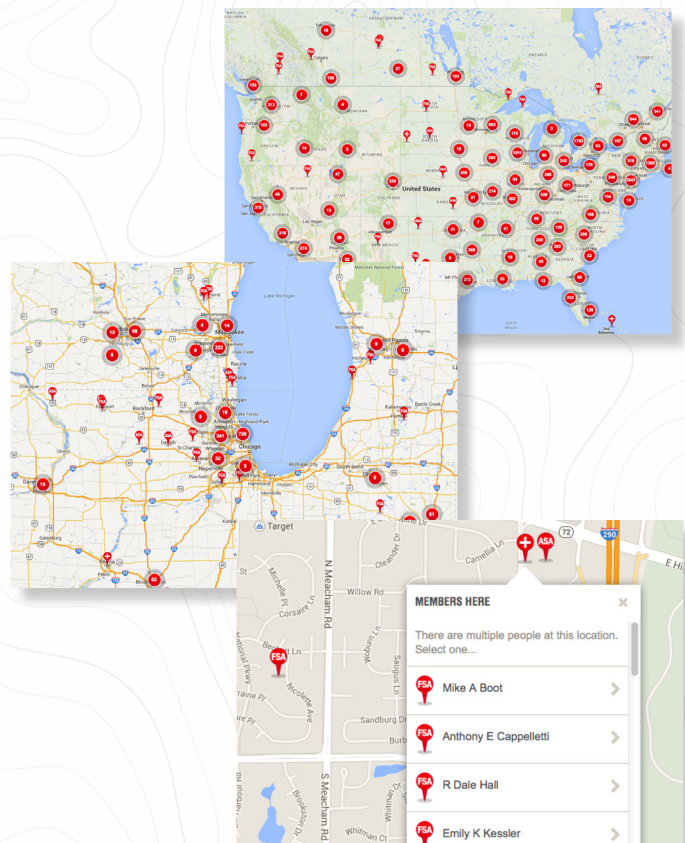
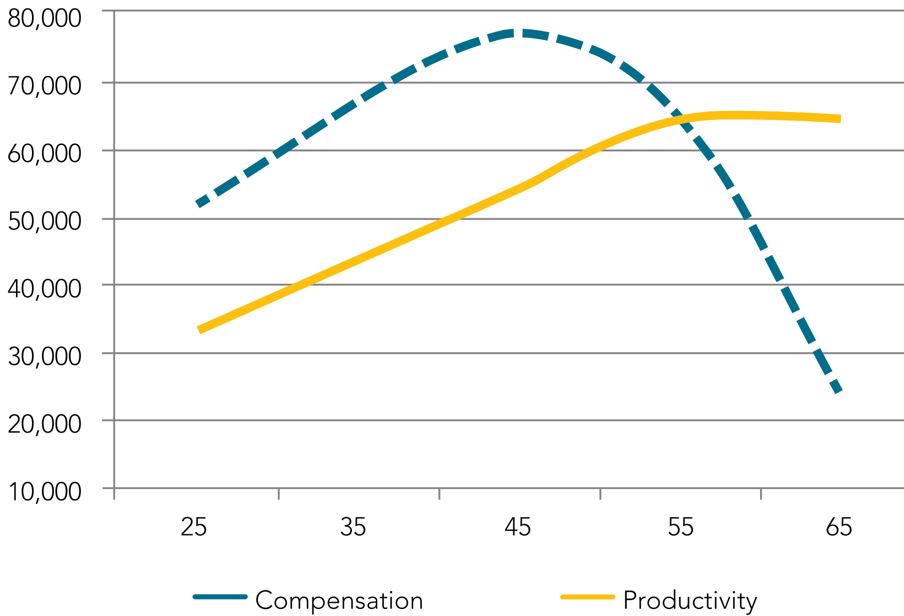


Many traditional DB plans have been converted to cash balance plans, which function more like DC plans. Most of this decline in DB plans is attributable to new companies adopting DC plans while employment at older companies with DB plans decreased. Countries such as the United Kingdom and Australia that switched to DC plans like the United States, showed more rapid increases in retirement plan savings compared to countries such as Canada and Japan, which remained with DB plans.

Studies using replacement ratios were reviewed along with data on sources of retirement income to conclude that over a quarter of employees may not be prepared for retirement at age 65, and over half may not be ready for retirement at age 55. Studies of employees' decision to retire were also reviewed. According to the National Institute on Aging/University of Michigan study, the trend to earlier retirement may be ending as baby boomers plan to work longer, employees with DB plans retire 1.3 years earlier than those with only DC plans, and poor health is more important than financial factors in deciding to retire early. According to the Transamerica Center for Retirement Studies, the retirement plan for many workers is not to retire. The percentage of workers who plan to work to age 70 (or not retire) is 39 percent, and 54 percent will continue to work after retirement with financial need being cited as the most common reason. Only 10 percent are very confident and 41 percent somewhat confident that they will be able to retire comfortably. The Society of Actuaries Risks and Process of Retirement Survey serves as another source for factors influencing retirement decisions. While only 11 percent of pre-retirees in the 2009 survey say that they plan to retire before age 60 and 59 percent plan to retire at 65 or later, of those actually retired, 51 percent retired prior to age 60 and only 18 percent retired at age 65 or later. In addition, 39 percent of retirees retired earlier than expected, with health and work related (layoff or firing) issues being the primary reasons for retirement. The study also shows that not all those whose retirement plan is to keep working will be able to do so, as two-thirds say they plan to work in retirement but only about one-third of retirees are actually working.

The quantifiable workforce management savings of DB plans primarily arises from the retirement of older workers whose productivity has declined but whose total compensation (including benefits) has not. An employee participating in a typical final pay DB plan accrues increasingly valuable benefits up to qualification for early retirement, after which the value of accruals decreases until they may be reduced or cease after normal retirement. While future income from a DC plan is dependent on account balances that rise and fall with the financial markets and annuity rates, income from a DB plan is known and not variable. When there is a recession and need to reduce staff, older employees under DC plans will not want to retire because their account balances are likely lower due to declines in investment markets. Employers who provide a DB plan can offer an early retirement window of enhanced benefits to encourage older employees to retire during recessionary times. Better employee morale and loyalty may be some of the less quantifiable benefits of DB plans.

A number of studies of pay and productivity were reviewed. The pay/productivity gap is illustrated from the Kotlikoff study in the chart on page 6.



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Using data from the Kotlikoff study on a sample group with five employees ages 25-65, the cost (compensation/productivity) of the 65 year old working an additional year because the DC plan does not provide sufficient benefits was 16 percent of payroll. Two other studies, with less dramatic pay/productivity gaps were also included with lower cost for the continuing employment of the 65 year old. In all cases, DB plans have significant cost savings from retirement of older workers.

Defined benefit plans have been used for workforce management—to encourage older workers to retire and provide early retirement incentives when staff reductions were needed. While defined contribution plans have led to an increase in retirement plan assets, their voluntary nature and lack of benefit certainty make them less effective for workforce management. Other potentially expensive methods of workforce management will be needed. Adjusting compensation down in line with reduced productivity through demotion or dismissal has legal and reputational risks. Offering cash severance for layoffs may be more expensive on an after tax basis than using DB plans. ■

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A VIEW FROM THE SOA'S STAFF FELLOW FOR RETIREMENT

By Andrew Peterson

Mortality and longevity-related topics have received a significant amount of attention among pension actuaries over the last twelve to eighteen months, due in large part, to the release of the new RP-2014 and MP-2014 tables. While I understand that the release of the tables by the SOA was not without some controversy and ongoing varying viewpoints, the awareness of mortality issues (e.g., particularly around mortality base tables and projection issues) has likely never been higher for pension actuaries. I believe that is a positive outcome.

Improving the understanding and ownership among actuaries of the financial implications of longevity risk management is goal of the SOA. In fact, in late 2012, the SOA Board appointed a task force to identify recommendations for the SOA with regards to longevity. The Board recognized that longevity is a key part of the work of many actuaries and the science of measuring and forecasting longevity is changing rapidly. The Board also recognized that the SOA and the actuarial profession could play a key role in helping public stakeholders (general public, policy makers, and regulators) understand the drivers of changing longevity.

Through a series of interviews with actuaries and others working in the field of longevity, the task force recommended the SOA adopt key goals and a series of tactics with regard to the longevity issue. These goals were structured around a single premise: longevity risk is an issue of social and economic importance. Actuaries have a key role to play in the measurement and management of risk to financial institutions (public and private) that provide income in old age and to support actuaries in this changing environment, the task force recommended that the SOA change and improve its education and research around mortality and longevity.

We currently have a cross-disciplinary "Longevity Advisory Group" made up of six SOA member actuaries that are working with staff to implement these goals. Tactically we are focusing on education, research and partnerships with other experts and organizations (both inside and outside the actuarial profession).

Our first significant effort supporting this initiative was hosting an invite-only SOA Longevity Seminar in February 2015 targeted at actuaries who we understood to be thought leaders in the longevity modeling, measurement and risk management space. The focus of the event was to provide a common understanding of the current state of play with respect to the core areas of the 1) science of longevity risk, 2) the measurement and modeling of longevity risk and 3) the management of longevity risk. The objective was to share knowledge and develop a common understanding among a core set of SOA thought leaders and industry experts

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...THE AWARENESS OF MORTALITY ISSUES HAS LIKELY NEVER BEEN HIGHER FOR PENSION ACTUARIES. I BELIEVE THAT IS A POSITIVE OUTCOME.

that will then be leveraged as we seek to educate members of the SOA and increase the actuarial profession's understanding and relevance in the area of longevity risk.

The seminar received high marks from attendees, both in terms of the seminar content and the cross-disciplinary representation of individuals participating—from insurance to consulting to academia. As we move forward, we are seeking opportunities to leverage the content, input on research ideas and other feedback received into further educational events and research initiatives. Stay tuned for further opportunities in this area.

In addition, further activities are happening in the pension space. For example, in March 2015, we convened a group of about twenty pension actuaries representing various consulting and audit firms, the SOA's Retirement Plans Experience Committee (RPEC) and SOA staff to discuss the current status of mortality study work in the pension area and how we can move forward productively in the future (more on that in a subsequent newsletter). Also RPEC continues to work on mortality studies and is now embarking on a public pension plan mortality experience study which we anticipate will lead to a public plan-based mortality table. Finally, the Pension Section Council is working on educational opportunities for the remainder of 2015 which will include a webcast and several sessions at the SOA Annual Meeting & Exhibit on mortality/longevity topics.

If you have a particular interest in any of these areas, ideas for further projects, or would like to volunteer to help, please feel free to contact me. ■

PERSPECTIVES FROM ANNA

NEW VENTURES FROM THE COMMITTEE ON POST-RETIREMENT NEEDS AND RISKS

By Anna M. Rappaport

The Committee on Post-Retirement Needs and Risks (CPRNR) has gradually expanded its areas of work. Some of the ongoing work within the last year looks at different issues. You may wonder why we went where we did and where our work will take us.

Each year there is a planning meeting where 20-30 retirement professionals from a variety of disciplines share their concerns about what is important to success in retirement. We group these concerns and then vote on topics that will become the projects of the next year. Our work takes us where we see problems and challenges. Sometimes we have good ideas for improvement but sometimes we just learn more about the challenges.

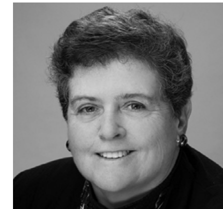
One of the projects started in 2014 and moving to a new phase in 2015—Improving Employer Plan Design—is focused on the future of the retirement system. The CPRNR is seeking support to test a variety of ideas on different stakeholder groups. The proposal is to do a survey of multiple groups. The committee conducted an online discussion of plan design ideas and an article summarizing some of that discussion is included in this issue of Pension Section News. This project grew out of concerns that many of the benefit programs today do not do enough. The problems in some programs include benefits that are not adequate, no focus on income after retirement, use of retirement too early, and gaps in disability and other risk protection.

A new report "Models of Financial Advice for Retirement Plans: Considerations for Plan Sponsors" authored by Michael Finke and Benjamin Cummings, focuses on what plan sponsors can do to provide support for employees as they make decisions about their retirement benefits and other financial matters. A few years ago, the CPRNR would probably not have tackled this topic, but over time it has become clear that good decisions are important for financial success, and that employees need help. There is a growing interest in financial wellness. This project grew out of a concern that average Americans did not have a good source of accessible and affordable impartial advice to help them through the complex decisions they must make. The concern was reinforced by the gaps in knowledge that persistently turned up in Society of Actuaries surveys and research.

This project was particularly interesting because the project team found that there were complexities in the subject, and relatively little comprehensive literature.

Our work has also been enhanced by working with partners. We partnered with the Stanford Longevity Center two years ago, and are now working with them on a project on efficient frontiers in retirement. This is a new approach and modeling is being used to show how different income combinations produce different results. Long accepted work in investment theory is being applied to retirement income. We believe this work will help people make much more informed choices about the payout period.

Hopefully this work will inspire actuaries to examine their thought processes in regards to these issues. For those of us on the CPRNR, working on the committee has expanded our horizons and brought us new perspectives. We have benefited from multi-disciplinary teams and recommend that practice to other groups as well. It is a privilege for me to share some of these insights with you. ■



Anna M. Rappaport, FSA, MAAA, is an actuary, consultant, author, and speaker, and is a nationally and internationally recognized expert on the impact of change on retirement systems and workforce issues. She can be reached at *anna@annarappaport.com*.

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RETIREE HEALTH BENEFITS AND THE U.S. SUPREME COURT

By Jeffrey Petertil

On Jan. 25, the Supreme Court of the United States (SCOTUS) issued a unanimous opinion on a rare retiree health benefit (RHB) case that reached the highest court, (M&G Polymers USA v. Tackett, No. 13-1010). The headlines were variations on "High Court Rules for Employer in Retiree Benefits Case." SCOTUS indicated that when an employer gave retirees health care in a collective bargaining agreement (CBA) but was ambiguous about the duration of the benefit, there should not be an inference of lifetime benefits.

In so doing, SCOTUS overturned a ruling that followed a 1983 Appeals Court precedent (UAW v. Yard-man, 6th Cir. 1983) in finding that a CBA that was silent (or ambiguous) about whether the retirees' benefit terminated, should be construed to confer vesting for the retirees' life. The Appeals Court validated that, but SCOTUS disavowed it.

The SCOTUS decision closes a few doors that have been open too long, while also providing some openings. This ruling gives me a springboard for a dive into several topics related to the always uncertain world of RHBs.

Let's start with a question: Why has the vesting and duration of RHB been left unresolved for so long? The question of whether RHB can be changed has affected millions of people, and the Yard-man precedent dates from 1983. The M&G Polymers case decided this year involved a handful of people, but the question decided was asked in countless forums for decades. The lack of a definitive answer from SCOTUS left uncertain not only a segment of the actuarial profession but also a fair portion of the country's aging population—and stock analysts. Yet the nine justices of SCOTUS, often thought to be as split along partisan lines as Congress and the electorate, were unanimous in setting aside the Yard-man precedent. Justice Thomas' opinion went to some length to condemn that 6th Circuit Appeals Court opinion as having been applied indiscriminately across industries for all these years. Why didn't they tell us 30 years ago?

SCOTUS has not had a case before it that provided the platform on which to give an opinion. There were plenty of cases that seemed to hang on the interpretation of the sponsor's commitment to paying the benefit for the long term. The parties reached settlement, however, rather than go to the highest court.

In November's oral argument, Justice Scalia said, "…this thing [the duration of health benefits] is obviously an important feature. Both sides knew it was left unaddressed…." Scalia went on to say twice: whoever loses deserves to lose. This garnered headlines in November and some commentary to the effect that the justice was uncaring. In the larger context of the three or four decade lead-up, however, he was right. Employers and employees, corporations and unions, HR people and CFOs, have known this was important, but, to a large extent, they left it for someone else to decide. When that happens, don't be surprised if you are on the losing side.

The January SCOTUS decision sent the M&G Polymers case back to the Appeals Court, which was told not to rely on the Yard-man precedent, but rather to look to ordinary principles of contract law. SCOTUS refrained from deciding what this particular CBA meant; it usually rules based on principles, rather than analysis of the facts in a case. The case could come back to SCOTUS, as some justices gave indication that further fact-finding might lead to an inference of vesting.

The reason no case was pushed to SCOTUS is probably because the stakes are too high, higher than most want to admit. Having someone else pay for health care as we grow

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old is extremely valuable, hence the popularity of Medicare. But no feasible legislation addressed the private sector issue.

In the early 1980s, actuarial firms began valuing long-term costs of RHBs, which seemed to parallel pension benefits. Results stunned our clients, as long-term projections had a magnitude far higher than they expected. While the Financial Accounting Standards Board (FASB) proceeded with deliberations that eventually led to accrual accounting for RHBs, the U.S. Congress only tinkered at the edges, resisting the imposition of ERISA-like rules and providing little encouragement for advance funding. Employers began dropping or severely limiting RHBs; lawsuits were brought by unions and retiree groups.

As to common-law recognition of who owed what to whom, here too much was (and is) at stake. Many employers made plan changes that would be considered minor if imposed on active employees—an increase in deductibles or premiums—but they were sued when the changes affected retirees because of the precedent set and union fears that further reductions lay ahead. The employers were willing to continue some benefits if not tied to perpetual support. But a court case going to judge or jury was a wild card—there might be a finding that would give one side total victory in RHBs, but leave in tatters the trust needed to operate the business. So litigation was brought and settled, in a feint-and-parry sequence substituting for negotiations. Settlement might come just before the judgment of a District Court judge or before an Appeals Court ruling, but for 30 years settlement always came before a SCOTUS ruling. This was especially true for the Sixth Circuit (Michigan, Ohio, Kentucky and Tennessee), where the Yard-man decision had put a burden of proof on employers to show that a retiree benefit that was ambiguous about change was not vested.

By 1991, when FASB mandated accrual accounting, several lawsuits had gone to federal Appeals Courts, but with mixed results, some favoring employers as having a right to unilaterally change benefits, others favoring retirees, including Yard-man. Despite this mix, no appeal was taken to SCOTUS. Settlements out of court were the usual result, with neither side getting a "full loaf." The usual actuarial valuation model would overstate the employer's commitment to RHBs, since it assumed that retirees, like pensioners, would get their full loaf, with employers funding trusts in advance to finance lifetime benefits. Settlement terms do not usually disclose how dollar figures are determined, but there were indications that retirees were persuaded with optimistic views of investment returns. Stock markets are not the safest place to invest retirement assets, but only there could sufficient potential returns be found to have the diminished employer financial commitment blossom into full payment of future benefits.

Though most employers were sticking with their RHB programs, they were also tightening eligibility requirements and making other changes. The employer commitment looked like a shaky promise, and I was among those who suggested modeling with a higher discount rate. FASB seems to have never seriously considered allowing high risk rates, although it had pegged pension discounts to observable bond market yield rates. FAS 106 became conventional wisdom for most actuaries. Its reasoning is worth tracing, as is that of the Governmental Accounting Standards Board (GASB), but let's save discussion of accounting for another time. For the remainder of this article, we will consider the implication of the most forceful statement in the SCOTUS opinion: "… when a contract is silent as to the duration of retiree benefits, a court may not infer that the parties intended those benefits to vest for life."

Many RHB programs are loosely ordered, without an explicit contract or with a contract that is silent or ambiguous about duration. Yet the sponsor continues to pay the benefits, and it is foolish to consider them as having no value. Actuarial valuation models are built for those purposes and have a number of ways of addressing the ambiguity of RHB programs. Quantifying uncertainty in financial projections, through present values determined with risky discount rates, was commonplace in the finance world by the 1980s, with insurance actuaries being involved—although few pension actuaries had that experience, as the pension promise was not considered ambiguous, but rather guaranteed. The improved ability of computers to analyze massive amounts of financial market data led to many an MBA student knowing historic relationships between stock and bond yields and identifying equity risk premiums. Actuaries in for-profit insurance companies, given the task of finding which products would have profits sufficient to meet investor requirements, became familiar with the research of Ibbotson and Sinquefield at the University of Chicago's Center for Research in Security Prices and helped set internal rates of return accordingly. Seeking equity profits meant seeking risk and potentially reaping an equity risk premium. Future profits were projected forward and then discounted back to the point of investment with an internal rate of return, to see if the present value of the profits justified the investment.

Insurance regulation (and prudent management) requires reserves to be invested in low-risk assets, but investors in insurance company stocks want returns associated with higher risk. Retirement annuities offered by insurers had similar constraints, but for large industrial corporations that sponsored pension plans, and saw prophecy in the research studies, funding with stocks would be expected to provide higher investment returns. Thus, less cash would be needed upfront to fund pensions and more would be available for other corporate goals. Actuarial consulting firms finding present values of future pension payments used Ibbotson to determine discount rates, based on sustainable expected rates of return for equity and bond investment. Insurance actuaries were using equity discount rates to value uncertain profits, and pension actuaries were using equity discount rates to value pension payments

LITIGATION CONCERNING WHETHER SPECIFIC BENEFITS ARE PERMANENT AND UNALTERABLE HAS BEEN SETTLED FOR DOLLAR AMOUNTS WELL BELOW FAS 106 VALUES.

WE WILL CONSIDER THE IMPLICATION OF THE MOST FORCEFUL STATEMENT IN THE SCOTUS OPINION: "… WHEN A CONTRACT IS SILENT AS TO THE DURATION OF RETIREE BENEFITS, A COURT MAY NOT INFER THAT THE PARTIES INTENDED THOSE BENEFITS TO VEST FOR LIFE."

considered certain. Whether payments were certain or uncertain, guaranteed or not, didn't seem to make a difference. Eventually FASB and financial economics moved pension discount rates to the less-risky discount rates more appropriate for guaranteed benefits, but now SCOTUS is reminding us RHBs are often not guaranteed.

Court decisions regarding RHBs gave wide interpretation to the certainty of sponsor commitment. There were few incentives to get employers to pre-fund trusts for the benefits. Few assets were dedicated to future payments of RHBs. This lack of asset-backing is important, of course, but the second most salient aspect of RHBs is the uncertainty of employer commitment. (The No. 1 aspect is that it is incredibly valuable to have another person, or entity, share the cost of your health care as you get older.) As years passed, more employers reduced or terminated the benefits. Mergers-and-acquisitions specialists were not valuing the liabilities at an FAS 106 level, and it did not appear rating agencies or the stock market were either, but quantification methods they used, if any, remained their proprietary secret.

With few actuaries addressing this uncertainty for RHBs of a "lifetime" cash flow, I began speaking and writing about ways to affix present values to promised but uncertain benefits. An approach using a higher risk-adjusted discount rate seemed obvious to me, as I had been one of those insurance actuaries using equity discount rates. There were few RHB assets, so the expected-return-on-assets approach was out, plus FASB had rejected the idea for pensions, tying FAS 87 discount rates to bond yields, regardless of assets. Bonds, with certain cash coupons, were an apt match for the pension promise, but the RHB promise was far less certain, so a discount rate matching bond yields seemed inappropriate. Use of an equity risk premium in the discount seemed a viable alternative.

I detailed several approaches in a 1991 *Contingencies* article. One was to use an annual plan termination decrement. Later I realized this had a kinship with an options pricing model, where probabilities would be assigned to all cash-flow possibilities using some type of lattice model and discounting all of them at a risk-free rate. A 2012 Society of Actuaries (SOA) monograph on valuation volatility published a piece I co-authored that specified positive aspects of a valuation method that explicitly recognized the tentative nature of an employer promise. Advantages were quantified, using examples of typical employer RHB program changes. An appendix addressed discount rates under certainty and uncertainty. (Unfortunately, the version published omitted discussion of RHBs as an employee/retiree asset with an employer put option.)

The recent SCOTUS decision underscores the point about financial obligations based on unilaterally changeable promises. The usual approach seems flawed, and a "terminable," or "rescindable," approach better estimates economic value. Litigation concerning whether specific benefits are permanent and unalterable has been settled for dollar amounts well below FAS 106 values. Actuarial documentation for such amounts, if it was available, seemed to use solid payment projections, but with settlement proceeds invested to yield future asset return indicating high risk. The practical effect is present value based on a risky discount rate.

Assuming the parties to negotiation and settlement also understood that the economic value of RHBs is much lower than shown in financial reports, we have an answer as to why it took so long for SCOTUS to decide a question that had been hanging for three decades. No party to litigation wanted to conclude their case without something to show for it. Both sides want to claim some victory and not be on Justice Scalia's losing end.

As noted above, SCOTUS remanded the M&G Polymers case to the 6th Circuit Appeals Court and a decision there might lead back to another SCOTUS hearing. I suspect there will be a settlement before that happens. Of the several ways for an actuary to aid in arriving at settlement amounts, the easiest modeling approach is probably the use of risk-adjusted discount rates.

The actuarial community's understanding of discount rates is not as rigorous or comprehensive as it might be, which is unfortunate because there is a similar vacuum in the economics profession. In the early 1990s, an Academy task force recognized the problem and advocated a research study, which the SOA sponsored but could not find an academic to complete. In the late 2000s, a more limited RFP went out from the SOA to economic researchers, but again the academic response was inadequate and no work was commissioned.

SCOTUS has given strong indication that RHBs are not to be considered vested unless that was the intention of the employer. The benefits will not disappear overnight, because their value to retirees is significant and an employer's cancellation of benefits sends a signal to employees, customers and investors that most employers would rather avoid. The retirees' benefit will continue to erode, more in troubled industries than in prosperous ones. In the face of the erosion and general uncertainty about the benefits that continue, the actuarial profession should find ways to place a value on the benefits commensurate with that uncertainty. ■

INTEGRATING 401(K) PLANS AND LONG-TERM CARE

AN INTERVIEW WITH KARL POLZER

Karl Polzer is a health/long-term care consultant at KP Consulting in Washington, D.C. He can be reached at *kpolzer1@verizon.net.*

INTRODUCTION

The Society of Actuaries newly released monograph: Managing the Impact of Long-Term Care Needs and Expense on Retirement Security Monograph provides various views on how retirement security and long-term care intertwine and provides ideas for the future of the long-term care system. In one of the monograph papers, "Financing Future LTSS and Long Life through More Flexible 401(k)s and IRAs," Karl Polzer set forth an idea for integrating 401(k) plans and long-term care financing. Under his approach, 25 percent of the 401(k) dollars can be used to finance long-term care benefits. The paper also discusses a combination of policy changes, including this idea, aimed at reducing long-term care (LTC) financing and retirement income risk while benefiting Americans across the income and wealth spectrum.

HOW DID YOU COME UP WITH THIS APPROACH?

I've been analyzing health and LTC policy for many years, most recently at an association representing a large share of the country's nursing homes and assisted living provides. In previous jobs, I'd done a lot of work on health insurance issues.

While assisted living is financed by private dollars, Medicaid and Medicare pay most of the national bill for nursing home care. As policymakers developed the now-repealed "Class Act"[i] and public programs faced major fiscal challenges during the "Great Recession," LTC providers were interested in developing policies that would encourage more private payment for their services. Medicaid in particular pays submarket rates, with resulting issues of care quality. Many policymakers remain concerned about the ability of federal and state programs to handle the costs of the Baby Boom generation's retirement and associated health and LTC costs.

Major obstacles to reform include the high degree of political partisanship and resulting government gridlock, particularly at the federal level. These issues are complex and require understanding of the interactions between the nation's health, LTC, and financial systems with a long-term view—which the political culture in Washington, DC is not good at or even well equipped to deal with.

WHY IS IT AN IMPORTANT IDEA?

The SOA pension section's Call For Papers was a great opportunity to explore these issues from a societal perspective and experiment with improvements. Old age income security and LTC financing are intertwined and need to be examined together. My paper tries to address major risks in both policy spheres. The country continues moving toward defined contribution (DC) accounts. Yet, DC tax policy encourages withdrawals from DC accounts that will leave many re-

tirees short, particularly if they live a long time and/or need LTC. So, why not change the minimum required distributions (MRDs) for DC plans to tilt payouts more toward the future? Based on average life expectancy, current MRD incentives could leave the longest-living half of the population with insufficient income late in life. Perhaps more important, many if not most people don't have the ability to save enough for retirement and are left out of the system. Shifting from defined benefit plans to a DC system also requires individuals to deal with investment risk rather than institutional investors.

While asking the questions above about retirement security, on the LTC side I used the "Willie Sutton" approach (if you want to find where the money is, look in obvious places like the banks). To deal with LTC risk and other retirement costs, Social Security provides a solid base that is indexed to inflation. But the cost of nursing home care and assisted living care is many times more than Social Security income for most people. Where to look next?: home equity, non-tax-qualified savings/investments, and retirement accounts. My paper experiments by setting aside a portion of DC savings—by deferring taxation on withdrawals—in special "Longevity/LTC Accounts," designed (in a somewhat crude way) to extend savings and investment income into older age.

But addressing this flaw in the DC system only solves part of the risk problem for part of the population. Another series of questions arises: How much money is in DC accounts and how it is distributed across income groups? Turns out that it's not that easy to know. And, given historical rates of return, what are the trade-offs for retirees between setting aside money for late in life compared with having more to spend in the present and earlier in retirement? How many people would have sufficient funds to set aside more money anyway? What are the various risks surrounding these decisions?

HOW MANY PEOPLE COULD THESE NEW ACCOUNTS HELP?

The paper estimates that about a fifth of those with DC accounts could set aside funds sufficient to significantly reduce the financial risk of future LTC needs either through buying insurance or paying directly. Additional policy changes could help increase the number somewhat. The wealthiest, of course, can self-insure. And almost everyone already self-insures to some degree, since most policies are capped at a set dollar amount and have exhaustion requirements. Also, the older people get, the more likely they will fail to meet underwriting criteria. Insurers increasingly are shying away from covering catastrophic LTC costs.

WHAT ADDITIONAL CHANGES COULD HELP A BROADER POPULATION?

Policymakers must look through a wider scope than businesses. More than half the population has very few net assets or a level below zero. The paper ends by suggesting a series of reforms designed to increase private funding for LTC and retirement, in part through incremental expansion of the government's role. Besides the DC policy changes discussed above, suggestions include shrinking risk corridors that individuals face by having society collectively (i.e., government) cover the highest LTC risks and basic costs of living for the very, very old. If society covered basic costs of living and care past a 25-year-retirement window, for example, retirement security risk would be lower. Retirees could withdraw more money earlier and pay more taxes earlier. If a federal program covered catastrophic LTC costs, then more people could buy smaller amounts of coverage that, combined with other assets, could reduce their risk. The rationale for government intervention is highest where the market fails to perform and where the most people in need can benefit.

These ideas are intended to be a starting point for inquiry and debate, not absolute answers. Maybe actuaries could help rejigger the MDR rules to provide more funds later in life with little or no cost to the federal government over the next decade?

HOW CAN ACTUARIES ENCOURAGE MORE DIALOGUE ON THIS TOPIC?

The SOA is already playing a significant role. The recently released "Land This Plane" initiative explores the opinions of various LTC experts and stakeholders on a wide range of financing issues and potential solutions.[1] The report does a great job of framing support for reforms blending private sector and government components. Actuaries and their associations should continue weighing in on public policy debates where their expertise is critical. Discussions leading up to passage of the Class Act are a good example. The actuarial community provided ample warning that risk selection and other structural issues would jeopardize the program. These issues eventually led to the repeal of the Class provisions in the 2013 New Year's Day budget bill passed at the last minute to avoid a highly publicized "fiscal cliff." In place of the Class program, the budget bill called for a lightly funded Long-Term Care Commission, which filed a report in late 2013. While the majority of the commission favored a private-public approach to funding LTC, a minority strongly favored creating a broader social insurance program. The actuarial community should continue being deeply involved in the ongoing reform discussions.

WHO ARE THE KEY PLAYERS?

In writing the paper for the monograph, I attempted to find a way to bridge the differences between the two groups. In this spirit, the draft's original subtitle was "Finding the Middle Ground." Before submitting the paper to the SOA reviewers, I asked many of the key thinkers and "players" to review the paper and provide ideas, criticisms, and suggestions. These included economists; representatives of insurance, provider, consumer, and other interest groups; policy experts; think tanks; academic researchers; congressional staff; and experts in agencies including the Departments of Health and Human Services, Treasury, and Labor. While I got terrific feedback, I wasn't able to find a political middle ground. At least yet. So I deleted "middle ground" from the subtitle and changed it to "A Key Piece of the Retirement Security Puzzle."

But politics and the resulting framework for policy discussions can and do shift rapidly. To have an impact, interest groups need to do their homework during times of seemingly endless gridlock, so they are prepared with workable solutions when the political timing is right.

HOW CAN ONE PARTICIPATE IN THE DIALOGUE?

Do what you can to learn about the political and policy world and how public policy interacts with the businesses you work for and problems you work on. This isn't hard with retirement policy as it impacts everyone. Sometimes I begin digging into a policy issue when things don't seem to make sense. For example, a few years ago, when I was working on LTC financing reform, the government began allowing my employer to start giving employees basic advice about how to manage funds in our 401(k). The fellow that came to our office advised plan participants to take a hard look at asset management and not "put all our eggs in one basket." At the same time, in my policy work I found out that LTC insurers typically put the premiums they collect into bonds and those bonds were barely paying enough to keep up with inflation. When I asked them why, they referred me to solvency regulations and talked about how they needed to control the possibility of too much risk taking. As a newly enlightened individual investor in the

DC system, it didn't make sense that these institutional investors seemed to be putting their money all in one basket. We both had roughly the same long-term investment time line—many decades. Was I being advised to take too much equity risk—or were they taking too little? (Hypothetically, would state government regulatory requirements for LTC insurance meet a test of fiduciary duty under ERISA?)

HOW DO WE GET THESE ISSUES AND IDEAS ON THE REGULATORY AND LEGISLATIVE AGENDA?

In doing research on the paper, I discovered the longevity risk issue is already in play. Several years after a proposal rule was published, the Treasury released a final rule last summer allowing part of DC savings to avoid MRD requirements if used to purchase a lifetime annuity. They were already working on this issue of longevity risk. More could be done.

Making things happen in Washington requires a set of advocacy skills that includes policy analysis, understanding of the political environment, research, legal issues, communications and media, coalition building, and dealing with congressional and administration staff. The government of our country was designed to function very deliberately through checks and balances. As the body of law and regulations organizing economic activity becomes increasingly complex, Washington is becoming increasingly specialized. People who are effective in this environment often have multiple skills sets and can learn quickly. ■

ENDNOTE

[1] The Community Living Assistance Services and Supports (CLASS) program, included in the sweeping 2010 health reform law, sought to establish a national, voluntary insurance program for purchasing community living services and supports designed to expand options for people who become functionally disabled and require long-term help.

IMPORTANT RESEARCH ON INCOME AFTER RETIREMENT AND DC PLANS

AN INTERVIEW WITH STEVE VERNON

Steve Vernon, FSA, MAAA, is president, Rest-of-Life Communications in Oxnard, Calif. He can be reached at *steve.vernon@restoflife.com*.

INTRODUCTION

The Society of Actuaries Committee on Post-Retirement Needs and Risks in partnership with the Stanford Longevity Center is sponsoring a series of research projects to further our knowledge about lifetime income and DC plans, and to help make it more attractive for plan sponsors to include a variety of income options.

The 2013 report, "The Next Evolution in DC Plan Design," establishes a foundation and guide for employers to move forward based on current knowledge. The 2014 report, "Foundations in Research for Regulatory Guidelines on the Design & Operation of Retirement Income Solutions in DC Plans," discusses the regulatory challenges to employers and establishes a framework for safe harbors that would make employers more comfortable with options. Additional work now underway is examining efficient frontiers. That work will be published in 2015. Steve Vernon is one of the principal authors of these reports, and he's collaborating with Joe Tomlinson, FSA, and Dr. Wade Pfau, professor of retirement income at The American College.

WHY ARE INCOME SOLUTIONS IMPORTANT FOR PLAN PARTICIPANTS?

Retirement income programs can significantly improve the financial security of retirees, for several reasons. It's easier for many plan participants to manage their finances in retirement if they receive a regular paycheck that will be reliably paid for the rest of their lives. When you think about it, most workers manage their monthly finances around their regular paycheck. The amount of that monthly check imposes a financial discipline; you can't spend much more than your paycheck over the long run. So it's only natural to continue managing your monthly finances through the discipline of a regular retirement paycheck that lasts for the rest of your life, no matter how long you live.

Traditionally that paycheck has come from Social Security and defined benefit plans. Most of today's new retirees, however, will need to determine how to generate a monthly check from their IRA and 401(k) accounts, to supplement their Social Security income.

This task is complex and is beyond the skills of most retirees. Plan sponsors can help improve the retirement security of their participants by offering programs of retirement income in their DC plans. This will make it possible for plan participants to select and implement a retirement income strategy that works for their goals and circumstances.

Plan sponsors are well suited to hire advisors to carry out the analysis and due diligence to design, implement, and communicate these programs. Our 2013 Next Evolution report estimated that plan participants could increase the amount of retirement income by 10 percent to 20 percent by utilizing institutionally priced retirement income solutions compared to retail solutions.

WHY IS THE REGULATORY FRAMEWORK FOR INCOME SOLUTIONS IMPORTANT?

Plan sponsors are concerned that if they offer retirement income solutions in their DC plans, they would incur fiduciary exposure if a plan participant elected a retirement income solution and later experienced unfavorable results. It would encourage them to implement retirement income solutions if they had a safe harbor for the retirement payout phase that is analogous to the investment safe harbors under ERISA Section 404(c) for the accumulation phase.

With this accumulation phase safe harbor, if a plan sponsor complies with requirements for the design, administration, and communication of investment options offered in the plan, then it has a defense against claims that a participant experienced unfavorable investment results. In the payout phase, plan sponsors would like similar guidelines for

the design, administration, and communication of payout options, such that they are protected in the event that plan participants experience unfavorable outcomes in retirement, such as income not keeping up with inflation, poor investment returns reducing income, or outliving savings.

The use of target date funds skyrocketed after they were given legislative and regulatory encouragement from the Pension Protection Act of 2006. We're hoping for the same result with a regulatory framework for retirement income solutions.

WHAT MIGHT BE INCLUDED AS KEY ELEMENTS OF A SAFE HARBOR?

We suggest using the 404(c) safe harbor regulations for the accumulation phase as a template for structuring guidance that applies to the payout phase. The 404(c) investment guidelines call for offering at least three investment choices that have distinct characteristics and risk profiles. Similarly, we suggest that a plan sponsor offer at least three possible methods to generate retirement income, each with distinct characteristics, as follows:

- Systematic withdrawals, where savings are invested in plan assets, and the plan pays the participant a periodic income using a payout strategy that is intended to last for life, but with no guarantees.
- Annuities, where an insurance company guarantees a lifetime retirement paycheck.
- A temporary payout over a fixed number of years, to enable delaying Social Security benefits or to provide a stream of payments until another form of income starts, such as an Advanced Life Deferred Annuity (ALDA) (also known as a qualified longevity annuity contract, or QLAC).

Similarly, safe harbor guidelines for the payout phase would enable a participant to divide their savings between two or more retirement income solutions. Also, there would be minimum disclosures to enable participants to make informed decisions.

HOW CAN ACTUARIES GET INVOLVED IN EXPANDING THE USE OF INCOME OPTIONS?

Actuaries are ideally qualified to design and communicate a program of retirement income in a DC retirement plan. Actuaries are trained to design products and services to address financial risks in retirement, such as outliving savings and keeping pace with inflation. This has the potential to be a major new area of practice for consulting actuaries.

WHAT ARE THE MAJOR TOPICS COVERED IN THE RESEARCH REPORTS?

The 2013 report, "The Next Evolution in DC Plan Design" provides a guide to DC plan sponsors and their advisors for design-

ACTUARIES ARE IDEALLY QUALIFIED TO DESIGN AND COMMUNICATE A PROGRAM OF RETIREMENT INCOME IN A DC RETIREMENT PLAN.

ing and implementing programs of retirement income. It defines various retirement income generators (RIGs), summarizes their advantages and disadvantages, and projects how much income they generate during expected, favorable, and unfavorable investment scenarios. It contains a checklist for plan sponsors and their advisors to follow when designing a retirement income program. This report also contains a discussion of the fiduciary issues written by prominent ERISA attorneys.

The 2014 report "Foundations in Research for Regulatory Guidelines on the Design & Operation of Retirement Income Solutions in DC Plans" uses analyses and forecasts from the 2013 report to discuss possible safe harbor guidelines that could encourage plan sponsors to implement retirement income programs. For those plan sponsors who have compelling reasons to implement retirement income programs before such safe harbor guidelines are promulgated, the report provides a framework for developing a retirement income program for plan sponsors who are willing to rely on the prudent person rule for making fiduciary decisions.

Both reports are a good way for actuaries to learn about the relevant issues with designing and implementing retirement income programs.

WHAT REACTION HAVE YOU GOTTEN TO THE REPORTS?

I've presented the results at 10 professional conferences and two webinars, and reaction has always been quite favorable. Since this is such an important challenge for our society, professionals are hungry for the insights that our reports are providing, both to discuss the methods of the analyses and the results.

WHAT IS COMING IN THE NEXT PHASE OF THE WORK?

We're currently examining retirement income solutions in DC plans that can be considered optimal, according to specified criteria. We're using stochastic forecasting techniques together with efficient frontiers, and we intend to examine retirement income solutions that can be currently and realistically offered in DC retirement plans. We're comparing solutions that combine systematic withdrawals with immediate annuities, guaranteed lifetime withdrawal benefits (GLWB), and stand-alone annuity and systematic withdrawal methods.

We're also projecting results using qualified longevity annuity contracts (QLACs), and deferred annuities that are purchased in the period leading up to retirement. Both of these solutions were enabled by recent Treasury regulations. We're excited about these phases of our project because we'll be analyzing whether more complicated retirement income solutions produce better projected results than simpler solutions. While these more complex solutions are receiving a lot of general attention in the retirement industry, there's not a lot of detail on how you'd actually design a real-life application. That's where we intend to fill the gap of knowledge.

We're grateful to the Society of Actuaries for sponsoring this exciting and important research! ■

CRASH COURSE NEEDED:
FOUR OUT OF FIVE AMERICANS FAIL WHEN QUIZZED ON HOW TO MAKE THEIR NEST EGGS LAST

Editor's Note: The following is a press release, originally published by the New York Life Center for Retirement Income at the American College.

The 4% Safe Withdrawal Rate Rule is a Mystery to More than Two-Thirds of Americans

Half of Americans Unclear on Best Time to Claim Social Security

Major Study from The American College Raises Alarm About Deficiencies in Retirement Income Literacy

BRYN MAWR, PA, December 3, 2014 – Just **20%** of retirement-age Americans can pass a basic quiz on how to make their nest eggs last throughout retirement. In fact, a large majority of people age 60 to 75 with at least $100,000 in assets lack the knowledge they need for a financially secure retirement in areas such as life expectancy, Social Security, long-term care needs, investment risk and more.

These findings are part of the new **RICP® Retirement Income Literacy Survey,** from The American College of Financial Services – the most comprehensive survey exploring the drawdown phase of Americans' financial lifetimes, when people are no longer receiving a paycheck from their jobs but must still fund their lifestyles during a potentially lengthy retirement.

RETIREMENT INCOME LITERACY: FAILING GRADES

Despite their failing retirement income grades, many Americans are surprisingly sanguine about their retirement prospects. More than half **(55%)** consider themselves well-prepared to meet their income needs in retirement, and almost all **(91%)** are at least moderately confident in their ability to achieve a secure retirement.

"No one liked getting Fs back in school, but retirement income literacy is a test Americans simply cannot afford to fail," said David A. Littell, RICP® Retirement Income Program Director at The New York Life Center for Retirement Income at The American College. "When you're working, you can plan, save and prepare for a retirement target date. But once you're in retirement, there is no set target date for how long your savings must last – and little room for error. Workers are increasingly on their own when it comes to making financial decisions and a dwindling few have access guaranteed in-

Retirement Income Literacy: Failing Grades

Letter Grade on Retirement Income Quiz	Percentage of Respondents
A (91%-100% correct)	Less than 1%
B (81%-90% correct)	1%
C (71%-80% correct)	5%
D (61%-70% correct)	14%
F (60% or less correct)	***80%***

come from pension plans. Now is the time to raise retirement income awareness and give Americans the strategies and knowledge they need to address this challenge."

ASSETS ON THIN ICE

Respondents show a particular dearth of knowledge when it comes to understanding how to preserve their assets in retirement. The oft-cited "4 percent rule" for a safe withdrawal rate in retirement is unfamiliar to seven in ten Americans **(69%).**

A full **16%** thought it would be safe to withdraw 6% or even 8% per year.

On the other hand, one in five **(20%)** were overly conservative, estimating 2% to be the safest rate.

Despite the critical role that Social Security plays for most Americans, people are perplexed about when to claim it and how to make the most of their benefits. Only half of respondents **(53%)** know that it is best to wait until age 70 to claim Social Security for someone with a long life expectancy – a critical decision for one's financial security.

BOND BUBBLES AND STOCK SURPRISES

Although many Americans are responsible for their own investment choices, a disturbing number of these older respondents showed a lack of knowledge when it comes to understanding investments – especially bonds, which many consider "safe".

- Only two in five **(39%)** understand that when interest rates rise, the value of bond funds will decrease – especially concerning with potential rate increases in the near future.
- Less than one in ten **(7%)** understand that small company stock funds have a higher return over time than large company stock funds, dividend paying stock funds, or high yield bond funds.

"At age 25 or 35, these responses would be problematic but forgivable, because there's plenty of time to make up for any mistakes," said Professor Littell. "But at 65 or 70, poor investment decisions can be almost impossible to bounce back from. Even worse, bad decisions can damage both the future growth of a nest egg and the retirement income it can generate over time."

RETIREES GRAPPLE WITH RISK OF DEPLETING SAVINGS

Managing risk around retirement income is a problem for many Americans. More than half of Americans **(51%)** underestimate the life expectancy of a 65-year-old man, showing a lack of knowledge around how much time people should plan for living in retirement.

The time closest to retirement is the riskiest period for many retirees – yet the study finds most Americans unsure about how to transition into the drawdown phase.

Only **37%** know that someone planning to retire at age 65 should take the least amount of investment risk at age 65, rather than earlier or later.

Just **30%** of respondents recognize that it is more effective to work two years longer or defer Social Security for two years than to increase retirement contributions by 3% for five years.

PLANNING NEEDED

Americans face a retirement income planning deficit. Only **27%** of respondents report having a written retirement plan in place – despite the fact that **63%** say they have a relationship with a financial advisor, and more than half **(52%)** are at least moder-

ately concerned about running out of money in retirement. A significant minority **(33%)** have *never* tried to figure out how much they need to accumulate to retire securely.

"Basic financial literacy during the working years is dramatically different from the mindset people need when they transition to generating retirement income from their nest eggs," said Professor Littell. "Financial advisors, plan sponsors and financial services companies all have a role to play in raising Americans' grades when it comes to awareness and understanding of basic retirement income principles."

METHODOLOGY

The study was designed by Greenwald & Associates in cooperation with the American College. Respondents were asked knowledge, behavior and attitudinal questions on the following topics: retirement and retirement planning, ability to maintain lifestyle, income generation, annuity product knowledge, Social Security, life expectancy, death of a spouse, taxes, inflation, housing, medical insurance and long-term care.

Information for this study was gathered through online interviews conducted between July 17-25, 2014. A total of 1,019 Americans were interviewed. To qualify for participation in the study, respondents had to be ages 60-75 and have at least $100,000 in household assets, not including their primary residence.

ABOUT THE AMERICAN COLLEGE OF FINANCIAL SERVICES

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ABOUT THE NEW YORK LIFE CENTER FOR RETIREMENT INCOME AT THE AMERICAN COLLEGE

The New York Life Center for Retirement Income at The American College serves to elevate the knowledge of financial service professionals in order to improve retirement security for Americans. It provides a website for advisors and supports the Retirement Income Certified Professional® (RICP®) designation, which educates financial advisors to help prepare the 76 million Baby Boomers and millions of older retirees who are concerned about the safety of their retirement income plans. To learn more about the New York Life Center for Retirement Income, go to *http://retirement.theamericancollege.edu.* ■

A LEGACY OF PENSIONS: INTERVIEW WITH JOSH GOTBAUM

By Earl Pomeroy

Earl Pomeroy is senior counsel at Alston & Bird LLP and a member of the American Benefits Council's Policy Board of Directors in Washington, D.C.

Josh Gotbaum is now guest scholar at The Brookings Institution in Washington, D.C.

Editor's Introduction: *This interview was originally published by the American Benefits Council. It is being reprinted with permission. Pomeroy Perspectives is a recurring interview and opinion series prepared by former Congressman Earl Pomeroy (D-ND), now of Alston & Bird, LLP, on behalf of the American Benefits Council. The council is the national trade association for companies concerned about federal legislation and regulations affecting all aspects of the employee benefits system. For more information, visit* http://www.americanbenefitscouncil.org.

Earl Pomeroy has long been a champion of employee benefits and helping Americans achieve health and financial well-being. As the at-large member of Congress from North Dakota he served on the Ways & Means Committee, which has jurisdiction over employee benefits policy. Earl is now senior counsel at Alston & Bird LLP and a member of the American Benefits Council's Policy Board of Directors.

Drawing upon his legislative experience and background as a state insurance commissioner, Earl focuses his current work on financial services regulation, health care, pensions, tax, energy and agriculture policy.

In this occasional series, Earl will discuss trends, challenges and opportunities with leading thinkers and policymakers. He will also share his expertise and perspectives on public policy. Earl conducted the following interview with Josh Gotbaum, the former director of the Pension Benefit Guaranty Corporation (PBGC), in September, shortly after Gotbaum left the agency.

EARL POMEROY: Well, Josh, congratulations on the term you've now completed at PBGC, a tenure notable for its length and for the extraordinary energy you brought to the job. What are your feelings as you reflect back?

JOSH GOTBAUM: One, gratitude. I have been able to work with some of the most talented, most committed people in the federal government on an issue—retirement security—that is an important national issue. Second, pride, because I think over the past four years we have been able to establish that the PBGC is a force—not just for catching plans when they fail, but for preserving plans, for keeping them in place, and I think we have also established that PBGC is committed enough and knowledgeable enough to support the debate over what retirement policy should be in the future. Then, the third feeling is, of course, a sense of incompleteness. When [Secretary of Labor] Tom Perez and I were talking about leaving, he said "I have never left a job without a lot of unfinished business." And he's right. In this case, we have accomplished a lot, but we have yet to have congressional legislation to enable multi-employer plans to save themselves, we have yet to have a consensus on what changes in ERISA would facilitate retirement security for the next forty years, and so there is much that is not yet done. And those are the three.

EP: That's an excellent answer. I've watched several different directors in the PBGC, and I believe that your own participation in the national debate on retirement income security was particularly notable. What would your counsel be to your successor, relative to allocating time, on very specific and technical issues like a de-structuring case that might be before the PBGC versus the broader debate about the future of defined benefit plans and the role they play in retirement income security?

JG: The role of a chief executive is always to be concerned with the future and strategy. Sometimes, you have to go in and do organizational maintenance repair work, and I have done some of that; I'm proud to say that the majority of the senior management of PBGC is new people that I have brought

in during my tenure. But, the fundamental challenge for the CEO is not whether or not they can do benefits administration or whether they can do a reorganization. The fundamental challenge is whether the organization is well placed to succeed in the future. So my advice would be this: the future of the PBGC is tied inevitably and tightly, to the future of retirement plans. And if there are no retirement plans, if employers decide that it's too much hassle, then there will be no PBGC, and there will also be less retirement security.

ALLOCATION OF RISK WITHIN RETIREMENT PLANS

EP: There's a lot of reflection at the fortieth anniversary of ERISA about what has happened relative to private retirement plans; this wholesale shift from defined benefit to defined contribution. Do you think we're ready to have a sophisticated discussion in Congress and in the Administration about allocation of risk within retirement plans, how much the employer carries and how much the employee carries?

JG: It's already clear that the future of employee retirement income security relates fundamentally to the role of employers. If, in a voluntary system, you say that employers must be responsible for financial risk, must be responsible for fiduciary obligation, must be responsible for other kinds of legal risk and must be responsible for the result, then employers will decline to offer retirement plans. That has been what's happened. This fact is widely recognized.

It is not an accident that Senator Tom Harkin [chairman of the Senate Health, Education, Labor and Pensions (HELP) Committee], in his last pension reform proposal, proposed that employers stop being fiduciaries, that they be a conduit for funds to regulated retirement plans, but that the regulation be focused on the plan, not the employer. Similarly, senators from both parties have proposed legislation to expand the availability of multiple employer plans. A multiple employer plan is a plan in which the role of the employer is to be a conduit, and the responsibility for operating the plan with integrity

"ONE THING, I THINK, HAS ALWAYS BEEN TRUE—AND IS STILL TRUE—IS THAT EMPLOYERS RELY UPON AND CARE ABOUT THEIR EMPLOYEES." –GOTBAUM

lodges in the plan rather than in the multiple employers. So, in one sense, the debate and discussion has already begun. The real challenge is whether or not the federal government, at a time when it is unfortunately a poster child for indecision, can act on the need for reform.

EP: It's very clear without leadership, it's just evolving toward a complete shift to all risk and responsibility upon the employee. This is not a new phenomenon, we have plenty of market experience to evaluate how this is working for people and I believe that some of the obvious conclusions are alarming, in terms of assets actually saved by people within the baby boomer cohort about to enter retirement, whether or not these assets can last or whether or not they'll be matched in a lifetime payout instrument that assures that they'll not run out of cash flow before their years on Earth are done.

JG: Robert Merton, an economist, has been pointing out that we have changed the goal posts from the Employee Retirement Income Security Act to asset aggregations. That the regulated retirement plans under ERISA are now predominately not retirement income security plans. They are asset savings plans. And Merton's point is that we have, without debate, moved away from the fundamental goal of ERISA. I think that is the reason there needs to be a fundamental rethinking about how we do this, because the goal of ERISA was in the name: employee retirement income security. It wasn't employee retirement nest egg creation, and for a long time, throughout the '90s, the difference didn't matter, because in the '90s, nest eggs grew so much that the average person said "Oh, my nest egg is growing. I'll be okay!" And then you have the crashes in the early 2000s and 2008-9, and the average person (who is not a financial expert) realized "Holy cow! My nest egg is broken!" All of a sudden, since then, people have begun to realize that there is a difference between a retirement savings account and retirement income security, and it is no accident that since then, the percentage of the population that is worrying about retirement income has risen and continues to rise. Most important of all, this is not just a concern of people who are within five years of retirement. Concern about inadequate retirement income is now a concern of thirty-year-olds as well as sixty-year-olds. That tells us there is a real problem.

THE POSSIBILITY OF ALTERNATIVE PLAN DESIGNS

EP: So you've mentioned that employers have voted with their feet relative to the notion of carrying all of the risk and all of the fiduciary responsibilities; they've simply walked away from the traditional defined benefit plan. You've also mentioned the nest egg approach is leaving households wanting in terms of retirement income security. Are there alternative designs? Can you reallocate

risk in ways where there is a sharing of risk going forward that is represented neither in the defined benefit nor the defined contribution plan as we commonly know them today?

JG: If there is any lesson that one learns from looking at the range of retirement options, both in this country and across the world, is there are plenty of approaches that can provide better retirement security than the limited offerings we currently have. Within the traditional defined benefit notion, the industry has for years said "Let us share financial risk with employees in the form of hybrid defined benefit plans." Sadly, the legal and regulatory structure to support that notion has never fully been put in place. This is a microcosm of the general point, that there needs to be more flexibility. But let me give you some other examples; within the traditional defined benefit or defined contribution model, there are plenty of ways to embed lifetime income products—TIAA-CREF has offered one for generations.

However, we've actually made it harder for an employer within defined contribution plans to offer a lifetime income product than to offer a mutual fund. We've raised the bar on offering better retirement security, and so it is not a surprise that as a result we are getting worse retirement security. But could you have defined contribution plans that offer lifetime income purchase components? Of course you could. Could you have facilitated by government compulsory savings plans, the way it is done in many other nations? Of course you could. And so the issue here is not whether there are better designs. There needs to be much more flexibility to recognize that all situations are not alike. In some cases, employers can afford to be generous and take risks and in other cases they cannot; in some cases, employees can afford to save more and in some cases they cannot and in almost all cases, employers are better situated than employees to form judgments about plans, products, services and fees. So we should find a way to enable them to do it without fear of lawsuits.

MULTIEMPLOYER PLANS

EP: You mentioned, among things on the uncompleted agenda, the pending legislation relative to multiemployer plans. Now that Congress recently passed a smoothing proposal relating to single employer plans, the remaining action item before this Congress would be discussions involving the future of multiemployer plans. What are your thoughts on that?

JG: I think the debate and discussion on multiemployer plans has advanced very dramatically over the past year or two. There is no longer a denial that there is a major problem. The issue now is, can we get to a consensus on a compromise solution that will permit multiemployer plans to survive? Two things are clear: one is, that if the law is not changed, multiemployer plans covering one to two million people will fail. But the major problem is that long before that happens, employers will say "I'm getting out. I'm going to leave the ship before it sinks." So if there is not legislation to enable plans to save themselves, the entire system will collapse.

The other fact is that if legislation allows plans to save themselves and allows the multiemployer defined benefit system to restructure and refinance itself, that it can do so and that pension plans covering 10 million people and their families, plans that provide lifetime income, can survive and that the model can survive. So the real issue here is, can you get to a consensus on these admittedly difficult issues? The good news is that both business and labor, and both Democrats and Republicans in the Congress are engaged. They are looking for a set of compromises that can enable pension plans to live. There are such compromises.

“PENSION PLANS COVERING 10 MILLION PEOPLE AND THEIR FAMILIES, PLANS THAT PROVIDE LIFETIME INCOME, CAN SURVIVE AND THAT [MULTIEMPLOYER PLAN MODEL] CAN SURVIVE” –GOTBAUM

EP: Of all the appointees the Administration has made, I think very few would bring to their position the background you had as Assistant Secretary of the Treasury, time in the Office of Management and Budget, Assistant Secretary of Defense, as well as considerable experience on Wall Street. Can you identify whether it was the public sector experience, the private sector experience, or perhaps all of it together that played a particularly useful role in preparing you for the time and the challenges you had at PBGC?

JG: One of the reasons I admire PBGC is because it must live in both worlds. PBGC, in order to decide whether or not it must terminate a pension plan, has to understand what business can afford and cannot afford. In that respect, PBGC is different from the vast majority of government organizations. The vast majority of government organizations do not have to ask whether business can or cannot afford to comply with their requirements. PBGC does. And it has. So as a result, it is an organization which must be steeped both in the world of processes, the requirements of government, and the world of business, of finance and economics. So, from my perspective, PBGC used both parts of my life, both parts of my experience, and that's part of the reason why I think the agency is so unusual.

FUNDING AND PBGC PREMIUMS

EP: On the funding issue, one facet of your leadership that has produced perhaps more discussion on the outside than any other is your focus on the sufficiency of PBGC premiums. How do you see this in the context of what you were trying to achieve for the agency?

JG: I actually don't think there is any controversy about PBGC premiums from the plan sponsor community. They all agree that they don't want to pay any more and they would like to pay less. However, the fact is that absent adequate funding, PBGC will not be able to do its job and will go bankrupt. But that actually isn't the only reason why there needs to be reform of PBGC premiums. The other one is because the premium structure has the effect of convincing employers that they want to get out of the system too! Does it make any sense that the premium should be the same for a modest, terminated vested account as for an active account? And yet, they are. Why are employers moving to de-risk terminated, vested employees? Now, is it because of the major financial risk? No; part of it is they are paying premiums as if these were major accounts and they're not major accounts! So that's a case in which the one-size-fits-all approach of premiums is driving employers to saying “I'm getting out. I'm either going to do a lump sum, or I'm going to buy an annuity, but I'm getting out.” It's dumb. It's bad business, it's bad for retirement security, and it's another reason I think PBGC premiums need to be reformed. We've already made the point that if they are not reformed, two things will happen: one is, the PBGC will go bankrupt, but long before it goes bankrupt, employers will say “I should get out so that I don't get the bill when they are bankrupt.”

EP: I hope this interview is read by some significant number of plan sponsors. What would you say to them, by way of your hopes for the future of their relationship with their workforce when it comes to their retirement benefit?

JG: One thing, I think, has always been true—and is still true—is that employers rely upon and care about their employees. Are there a few bad apples? Of course, but that is not the rule. In a knowledge-based economy, it's even more true. When the assets of a business go out the door when employees leave, employee satisfaction matters more, not less. So, this isn't an issue about whether employers care about what employees care about. They do. At the moment, we are giving them so few choices that they are choosing the one that provides the least retirement security. But, to come all the way back, this is the 40th anniversary of the signing of ERISA.

ERISA was an enormously creative act, it was a bipartisan act, it was an act that brought together business and labor to solve a problem. That same creativity could save multiemployer pension plans, and that same creativity could provide retirement security for generations to come.

EP: Because of your energetic outreach on behalf of the agency and the administration, many of us have gotten to know you and feel very fondly to our time of working together. Inevitably, we'll be wondering "Well, what's next for the always energetic Josh Gotbaum?" What are your plans from here?

JG: I have done so many things that it's hard to describe it as a profession. I think what I do is fix things. So I'm going to look for a place where someone who has managed in business, has managed in government, has managed in non-profits can make a difference. Do I know where that might be? No, but that's what I'll spend the next three to six or nine months to do.

EP: Well, you have many friends and admirers who wish you well. Thank you for this interview, and very best of luck in the future. Congratulations on a job well done.

JG: Thank you. ■

LIVING
to 100
SOCIETY OF ACTUARIES
INTERNATIONAL SYMPOSIUM

2014 Living to 100 Symposium Monograph

Presentations from the 2014 Living to 100 Symposium are now in an online monograph at ***livingto100.soa.org***. The symposium brought together thought leaders to discuss the latest theories, research and implications on longevity and quality of life. Topics discussed included:

- The evolution of retirement;
- Work flexibility for a graying workforce;
- Business implications of living longer;
- Lifestyle and longevity; and
- Mortality trends and projection methods of older age.

The Living to 100 Symposium featured actuaries, demographers, physicians, academics, gerontologists, economists, financial planners, researchers and other professionals. This monograph will help to continue the conversation about how to address living longer, the impact to social support systems and the needs of advanced-age populations.

EXPLORING THE FUTURE OF RETIREMENT INCOME SECURITY

By the Committee on Post-Retirement Needs and Risks

The Committee on Post-Retirement Needs and Risks has a project group addressing the challenges of assuring financial security in retirement. This group used the committee's list serve for an online discussion of the issues. This article draws on the online discussion and subsequent follow-up to identify challenges and potential solutions. Many of the proposals are controversial, and there has been no attempt to forge a consensus. We hope our work will stimulate further discussion and help build support for changes to enhance the financial security of retired Americans.

BACKGROUND

There are several recognized challenges to the U.S. pension system:

- Many people are not saving for retirement. While most larger employers sponsor plans that mandate or encourage saving for retirement, many smaller employers do not. Further, the plans offered by most employer plans cover regular employees, but not contract employees or part-timers.
- Defined Contribution (DC) plans are now the primary plans for the majority of employers. Some of these plans provide for contributions large enough to accumulate adequate retirement resources, but others do not. Gaps in retirement income planning for many people include lack of disability coverage, and of guaranteed lifetime income. It is imperative to increase funding of retirement income.
- Innovative ideas for risk sharing offer opportunities for improved pension plans. Many reforms require legislative change or at least revised regulatory guidance. There are limited changes and innovations possible without regulatory accommodations. In making changes, it is important to recognize the barriers within the current situation and eliminate or reduce them. For example, some plans place too much risk on plan sponsors. The requirement for unisex plan provisions and annuity rates may be a factor in some decisions about plan structure and can be a deterrent to some desirable solutions.

STARTING THE CONVERSATION

Anna Rappaport kicked things off with an email that asked these questions:

- Can you identify improvements that you would like to see in the retirement security system?
- What two or three things would you do if you could not change the regulatory environment?
- What would you do if you could change it?

Anna also included in her email an "if I were king" list. Here is an updated version:

- No unnecessary complexity for plan sponsors
- Permit defined benefit (DB), defined contribution (DC), and some hybrid plan designs
- Enable and encourage later retirements
- Give plan sponsors access to tools for risk sharing combined with risk pooling, producing a model that is a modification of traditional defined benefit designs
- Mandate effective governance models
- Align interests of stakeholders
- Encourage and enable self-adjusting systems
- Encourage and enable pooling of longevity risk and appropriate management of other risks. This would include inclusion of disability risk in the design of both DB and DC plans.

THERE HAVE BEEN VARIOUS DISCUSSIONS ABOUT MAKING DC MORE LIKE DB, AND ABOUT FEATURES THAT WOULD MAKE DC PLANS PROVIDE BETTER RETIREMENT SECURITY.

- Make it easy for employers to offer lifetime income as a payout in DC plans with a supporting QDIA structure.
- Broaden distribution options in DC plans to include a range of risk protection options. Include not only options for lifetime income, but also longevity insurance for later in life income, long term care benefits and other risk protection.
- Require a sustainable financial model for all plan structures
- Include fiduciary requirements for plan sponsors
- Allow small employers to access pooled solutions
- Encourage people without an employer plan to save through an IRA or other investment vehicle.

Personal Responsibility
Individuals do and should play an important role in securing their own retirement security through the decisions they make about career, savings, investment, and spending. Unfortunately, few individuals have the planning and investment skills of defined benefit actuaries and investment professionals. Current levels of financial literacy and inadequate planning are barriers to better retirement outcomes. Regrettably, making better financial education materials available will likely have only a very modest effect.

ISSUES IDENTIFIED

Importance of the Big Picture
Individuals need to look at their retirement savings needs in the context of their overall savings and wealth. An individual with a projected maximum Social Security benefit, $2,000,000 in marketable securities, and who owns a home without a mortgage and a building that provides dependable rental income, is unlikely to need lifetime income from retirement savings. A person with a low projected Social Security benefit, renting a home, with less than $400,000 in liquid assets, is likely to need more guaranteed lifetime income.

COVERAGE

Gaps in coverage are a major concern. It is important to offer incentives for plan sponsorship or at least to require employers to provide access to retirement savings through payroll deduction. Some proposals:

- Mandating auto-IRAs. This would require that employers not offering a plan offer a payroll deduction IRA meeting safety and portability requirements, and put people into the IRA unless they opt-out. This proposal adds ease of access and the benefit of inertia to an already available savings vehicle. (Some states are setting up programs, and the administration has again proposed auto-IRA legislation at the Federal level. Illinois has adopted a Secure Choice Plan.)
- Tax-credit for low income employees' contributions to any retirement savings program.
- Multiple-employer plans. Encourage multi-entity arrangements including some for people who are not conventional employees. One idea: "mega-MEPs" for professional and personal community-based affiliations which would admit part-timers, contractors, individuals working on their own, etc. Multi-entity arrangements could be especially valuable for small employers. It would be desirable to know what parallel arrangements there might be in other

countries. This is an area when legislation will probably be important if new options are to be available.

- Other mandates. There is a clear split in views about mandates. Some believe that there are too many already; others that mandates are the only way to improve coverage. Employers often view mandates as a problem.

- Who are we counting when we measure coverage? In 2011, there were $153.7 million workers in the United States Of these, 91.0 million were full-time, full-year wage and salary workers ages 21-64. We need to analyze who is not covered and how they are attached to the labor force.

- Regulatory complexity and risk. The challenges of regulatory complexity are great, and are particularly discouraging to small employers. The potential for large fines is also a problem.

- Encourage inclusion of part-time employees in plans.

- Changing patterns of employment. It was pointed out that as employment patterns are changing, more people are self-employed. Small employers have grown in importance over the years and several people mentioned small employers. One consideration is to permit benefit formulas that work well for the business owner.

THE IMPORTANCE OF THE POST-RETIREMENT PERIOD

It is important to balance a focus on saving enough money with attention to how accumulated assets will be distributed. Many participants should disburse at least some of their savings as guaranteed life income. Some ideas:

- Provide a QDIA type structure for post-retirement income options.

- Educate plan sponsors about the value of lifetime income options and encourage employers to use them in plans.

- Mandate that any employer match be paid out as lifetime income, or mandate that a minimum share of the DC balance be paid as lifetime income when there is no DB, and provide fiduciary regulatory relief for employers making a guaranteed lifetime income allocation. Some people would mandate that most or all retirement resources be paid as lifetime income. It would also be possible to mandate lifetime income (including Social Security) up to an amount—maybe so that lifetime income equals 150 percent or 200 percent of the Social Security median, or the poverty level. However, persons with substantial personal wealth should be able to opt-out of any lifetime income requirement other than Social Security.

- Require that a section of the Summary Plan Description be devoted to retirement income planning. Clarify what education about the post-retirement period is permitted.

- Focus on a range of income options including trial annuitization and longevity insurance.

- Permit in-service distributions that would enable employees to purchase deferred annuities from existing plan funds while still working.

- Allow rollover of DC plan balances into DB plans.

- Include not only options for lifetime income, but also long-term care riders to provide additional coverage for long-term care. Others comments pointed to broadening the portfolio of what can be provided as risk protection through the distribution options. It is

important to provide incentives to encourage these options.

- Broaden distribution options in DC plans to include a range of risk protection options.

SUPPORTING DB COVERAGE

- Assumes that it will be possible to change laws and simplify regulatory requirements for DB and DB/DC combinations.
- Allow pre-tax contributions to both DB and DC.
- Simplify funding requirements for DB.

THE IDEAL DC PLAN AND OTHER IMPROVEMENTS TO DC PLANS

There have been various discussions about making DC more like DB, and about features that would make DC plans provide better retirement security. There is always a trade-off between mandates and more requirements and getting more people into the system. Here is an example of a model for a more secure DC plan:

- Make DC participation mandatory for all employees (unless a DB plan is provided)
- Provide auto-enrollment, and allow opt-out below a minimum contribution level only if the employer offers a DB plan. One respondent suggested a minimum initial employee contribution of 1 percent of pay.
- Require a minimum employee contribution and a minimum level of match. One respondent suggested 5 percent and 3 percent. In other settings, there have been proposals for minimum employee contributions of 3 percent and 5 percent.
- If contribution starts at a minimum level, then include a default contribution escalator. An example is 1 percent per year. Escalator applies until contribution reaches a level such as 10 percent of pay. Provision is mandatory unless DB is provided.
- Require a minimum allocation to a lifetime income based distribution model, and link this provision to the default investment options.
- Use analytically based asset allocation models for the default investment option.
- Include good investment education and a sophisticated default option
- Include a disability provision to provide a "waiver of premium" like benefit.
- Simplified rollovers.

The use of "auto features" to improve DC plans is widely accepted, but there is no consensus about which features should be included. There is particularly no agreement about risk protection and about distribution options

GETTING RETIREMENT AGE RIGHT

- Require informed spousal consent for early election of Social Security. (Purpose is protection of widows.)

OTHER IDEAS

- Use activity tracking wearables to change spending habits and encouraging savings, thereby creating a new reward system for savings.
- Need to focus on retirement age and how work and retirement fit together.
- Encourage annuity distribution options on plan termination.

CONCLUSIONS

We have identified many challenges and proposals to overcome them. We do not know which of the ideas under discussion today would be acceptable or if they are all feasible. Many of the ideas would require regulatory or legislative change which is very difficult to achieve in today's political environment. Big questions as we move into the future are how to move forward with what we can do now, and how to expand the options that are feasible. ■

Note: The committee is exploring the feasibility of doing a survey of multiple stakeholder groups in order to determine how different groups would respond to different plan design innovations.

Note: This story is based on the working group discussion. Members of the working group who contributed to this article include Paul Donahue, Anna Rappaport, Cindy Levering and Carol Bogosian.

ENDNOTE

[1] Note that the state plans may not be subject to ERISA and there are both advantages and disadvantages of such plans. While they may provide for retirement savings for more people, there are concerns about tax treatment, consumer protection, how funds will be invested, expense levels, transferability of funds to other plans, and if there are small account balances remaining, that they not be lost.

[2] EBRI Issue Brief No. 378, Figure 1, data based on March 2012 CPS

[3] It should be noted that for people in low tax brackets or those who pay no current income tax, putting money in a tax-deferred arrangement is not a good idea. If the tax rate at the time the funds are withdrawn is higher than when they were earned, this can result in an increase in taxes. Therefore Roth IRAs are a much better idea than tax deferral for some of this group.

CAREGIVING AND ITS IMPACT ON RETIREMENT PLANNING

AN INTERVIEW WITH SANDRA TIMMERMAN

Dr. Sandra Timmermann, EdD, is a nationally recognized gerontologist with a focus on the retirement life stage. She is the founder of the MetLife Mature Market Institute. She can be reached at *sandratimmermann1@gmail.com.*

The Society of Actuaries Committee on Post-Retirement Needs and Risks has recently had a focus on the link between retirement planning and long-term care. Sandra Timmerman authored "The 65 Plus Age Wave and the Caregiving Conundrum: The Often Forgotten Piece of the Long-Term Care Puzzle," one of 12 papers published recently in the Society of Actuaries monograph: Managing the Impact of Long-Term Care Needs and Expense on Retirement Security. *The monograph covers a wide variety of issues linking long-term care and retirement security. This paper focused on the impact on the caregiver and on the societal issues linked to caregiving. This interview provides some of the highlights of the issues raised in the paper. This is an area of retirement planning that is often neglected.*

WHY DOES CAREGIVING AFFECT RETIREMENT?

While the family provides the lion's share of care for an aging parent, spouse or other frail or disabled loved one, the role of the family caregiver and its impact on financial well-being in retirement is often forgotten. In fact, many caregivers themselves do not connect the dots. Yet the truth is that there are financial as well as emotional and health-related consequences of being a caregiver. Research data shows that, the average caregiver spends over $5,000 a year out of pocket when providing care and can lose up to $330,000 (mostly in wages and lost benefits) over a lifetime if he or she drops out of the workforce. Most caregivers are women. They live longer and generally earn less than men, so they need to plan for a secure future. The problem is that if they do decide to leave their jobs or take a hiatus from work, they will find down the road that they have accumulated less savings, lost the added funds provided by a 401(k) match and spent money on health care and other benefits once provided by an employer. And those who reenter the workforce once caregiving responsibilities are over may discover that it is difficult to find a job at the same salary. Sometimes they many find it hard to find any job. Older caregivers taking care of a spouse may find that they use up most or all of the couple's resources and are left with insufficient funds should they need care later. They may also be required to change their living standard and live on less money. All these factors contribute to often unrecognized retirement risk.

WHAT ARE SOME OF THE IMPORTANT ECONOMIC ISSUES?

Over the next twenty years, the 75 million baby boomers will be in their 70s, 80s and beyond. We can anticipate that many will develop physical or cognitive disabilities that will require care. Gen X, the generation that follows, is a small generation, and many of them are the children of the boomers. The result is that there will be more care recipients than family caregivers to care for them. The situation is made worse by the projected shortage of paid caregivers available to supplement family care. While aging at home is preferred by the vast majority of older people, it may prove to be difficult for many people, especially those with few family members nearby, to receive the care they need. Add to this the low savings rates of the baby-boom generation, many of whom will not be able to afford to pay for care. At the same time, state Medicaid budgets are stretched to the limit and will be faced with even bigger challenges in the future. Without some policies and programs to help the family caregiver, we can anticipate even bigger government expenditures for long-term care services and support in the future.

WHAT ARE SOME OF THE DEVELOPMENTS WITH REGARD TO AGING IN PLACE?

The government has been testing new Medicaid models which allow older people to age in place rather than be institutionalized in a nursing home. One example is the cash and counseling program. In this model, the older

person needing care is given a stipend and can choose how to pay for their long-term services and supports. They might, for example, decide to use the money to pay a daughter to be their caregiver and to make their home accessible. The expenditures are monitored to assure that there is no fraud involved. Programs are also springing up at the grass roots level for those older adults in the middle market who want to age at home, are not eligible for Medicaid, and can pay for some services. One example is the Village to Village Network. In this model, people join a Village, pay a membership fee and have a one-stop-shop, a person to contact if they need services such as a home care agency, a home remodeler, or a pet sitter. Most have volunteer banks so members can call when they need a ride to a doctor's appointment, meals when they are sick and other services. There are also new housing models such as home-sharing, co-housing and smart technology homes. These are promising developments, although at the present time, the scale and community infrastructure do not match the growing need.

HOW MIGHT THESE ISSUES BE WOVEN INTO RETIREMENT PLANNING?

It used to be that insurance and retirement products were sold in isolation. Now there is recognition that holistic and life planning strategies need to be integrated into the financial planning process as people transition from full time work to retirement. Most people will either be caregivers or care recipients, or both during the course of their lives. It is important to recognize that the responsibility of being a caregiver, the decisions to be made in regard to living arrangements for our parents and ourselves, how we want care to be provided and what we want at the end of life all have financial and legal ramifications. One of my favorite websites is Five Wishes *www.agingwithdignity.org*. "Five Wishes is an easy to use legal document written in everyday language that lets adults of all ages plan how they want to be cared for in case they become seriously ill."

WHAT CAN THE BUSINESS COMMUNITY DO TO ADDRESS THESE ISSUES?

Employers will find that many of their employees are caregivers, providing care for aging parents or other family members. Large employers generally sponsor work-life programs that include a hotline or website with eldercare resources. Some even provide caregiver coaches. Unfortunately, these programs are underutilized, with studies showing that employees are not aware that an employer might offer them. And, unlike childcare, some employees still believe that there is a stigma attached to admitting that they are providing care to a parent and need time off. It would be helpful for employers to continually make their employees aware of these programs as caregiving is something most people don't plan for. They should also make sure that managers know about the services available. For smaller employers, there is a wealth of resources available in many communities and Area Agencies on Aging are more than willing to come to a workplace to give seminars and provide resource information. I might also mention that entrepreneurs have an opportunity to provide services to caregivers in the community, ranging from home remodeling so people can remain in their home safely to new monitoring technology to taxi services geared to frail elders.

WHAT ADVICE DO YOU GIVE FOR INDIVIDUALS THINKING ABOUT THEIR OWN SECURITY?

Most of us don't like to think about our own possible long-term care needs and so don't plan for them. And we generally don't know how we would pay for our care if needed or how it would impact our spouse or adult children. We also don't think about our possible role as a caregiver and the financial ramifications. While it is a difficult topic, we need to address not only how we would finance long-term care but also how we would want our care delivered. Family members need to be part of that discussion. Long-term care insurance, use of home equity through reverse mortgages or other tools, and longevity insurance are products that need to be explored to insure that a retirement plan is not derailed.

DO YOU HAVE ANY ESTIMATE OF WHAT PERCENTAGE OF PEOPLE ARE LIKELY TO BE AFFECTED BY THESE ISSUES?

Research indicates that 1 in 4 households is caring for an older person or adult with disabilities. In my opinion, this is one of those issues that we all face but continues to be an ongoing challenge as we juggle work and family, and do our best to make good decisions. As individuals, we need to do a better job of preparing so that our children will not struggle with caregiving. And business, the government and voluntary agencies all have a role to play as well. Businesses incur costs related to caregiving, but often they are hidden.

WHAT IS MOST IMPORTANT FOR ACTUARIES TO KNOW?

Caregiving may not seem to be directly related to actuarial practice. Yet caregivers' health, longevity and finances may very well be impacted by the act of providing care to a loved one—the often forgotten piece of the retirement puzzle. ■

Note: See the paper by Sandra Timmerman for data and more information on this topic. The other papers in the monograph may also be of interest to people interested in this topic. The papers clearly demonstrate that failure to consider these issues will leave gaps in many retirement plans. These are important issues to be considered in the construction of retirement education programs, employee benefit plans, personal retirement plans and public policy.

ON THE LIGHTER SIDE – WHOSE DISCLOSURE IS THIS?

By Jennifer Fagan

“Whose disclosure is this?,” I think I know.
The vendor does not heed me, though;
The description of services fails to satisfy,
My statutory tableau.

The fiduciary must find dissatisfaction;
In the “covered service provider’s” inaction;
In adhering to my key provision;
“Exemptions from Prohibited Transactions.”

“This unreasonable fee, I must forsake! -
Surely, there is some mistake?”
But the vendor responds in silence;
Violation of my section 408.

The night is lovely, dark and deep.
But the fiduciary has promises to keep,
Disclosures to read before he sleeps,
Disclosures to read before he sleeps.

“And how will compensation be made? -
I must know how this vendor is paid.”
But the question remains unanswered
Far from ERISA this disclosure has strayed.

“And is this vendor a recordkeeper?”
Into the disclosure, the fiduciary digs deeper
But to his great and growing dismay
The hope for compliance seems a bit bleaker.

With patience gone, composure cracks;
“I will not pay the excise tax!”
And with that, from the office he flees
Frustrated by the information he lacks.

The night is lovely, dark and deep.
But the fiduciary has promises to keep,
Vendors to report before he sleeps,
Vendors to report before he sleeps. ■

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PENSION SECTION NEWS

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