

Re-Envisioning Retirement Symposium: A Forum for Creative Visions of the Future

By Steven Siegel, SOA Research Actuary

Viewers of the recent PBS Frontline documentary “Can You Afford to Retire?” can be forgiven for feeling an urge to rush to their local physician in need of a prescription for an anti-depressant. And hopefully, if they were over 65 and living in the U.S., they would have either signed up for Medicare Part D, which had its strict enrollment deadline a day before the show’s airing, or had some other coverage for the continuously improving, but increasingly expensive prescription drugs available. The bleak picture presented by the Frontline documentary and the highly publicized Medicare Part D administrative challenges encountered earlier this year reinforces the view held by many of the fragmented state of financial security in retirement in the U.S. Whether or not you agree with the documentary’s characterizations and conclusions, I am willing to venture that most of us would agree that there is room for improvement in the status quo --- not only in the U.S., but across North America as well.

Using this view of the status quo as a launching point, an SOA working group, originally formed to explore potential efforts related to phased retirement, decided to issue a call for papers that not only dealt with phased retirement, but a broader view of new visions for the future. The group, led by Rob Brown, officially issued the call for papers entitled “Re-Envisioning Work and Retirement in the 21st Century” in April 2005. The goal of the group and the call for papers was to hold an eventual symposium that would provide a forum for attendees to interact and discuss the future with little or no preconceived notions. The group was not disappointed --- 12 worthy papers were submitted in response to the call for papers and provided the content basis for a symposium.

The Re-Envisioning Retirement in the 21st Century symposium was held in Washington, D.C. on May 3-4, 2006. Over 50 attendees representing a diverse range of organizations gathered to hear presentations, network, and discuss the papers and other ideas. For the benefit of those unable to attend, the following is a brief session-by-session synopsis.

Session 1: Evolving Retirement Risks

This session set the tone for the symposium with Anna Rappaport providing context for the current state of retirement risks along with her visions on potential future scenarios and their implications. Much of Rappaport’s perspective was built upon recent research efforts of the SOA. Beverly Orth then presented ideas for new retirement plan designs envisioned for the 21st century. A motivating factor for the designs she presented was the growing trend away from DB plans. To counter this, Orth proposed, as one approach, a multi-employer DB plan that small employers, which previously found DB plans too complicated, may embrace. Valerie Pagnelli provided insightful commentary on the papers including her view that further phased retirement be encouraged. She also posed an interesting idea of a “retirement pyramid” modeled on the well-known food pyramid for educational purposes.

Session 2: Improving Models for Sharing of Risk

Louis Doray opened this session with the actuarial implications of phased retirement scenarios in terms of an employer's normal cost and employee's retirement benefits. Doray's presentation included an explanation for how cost methodology could be adjusted to accommodate such changes. Richard MacMinn presented results from his paper that investigated the effect of select birth cohorts on the pricing of mortality-based securities, such as survivor bonds, life annuities in general, or portfolios of life annuities. He concluded that the cohort effect can potentially be hedged with survivor bonds, which can become a mortality improvement risk management tool for life annuity markets. The session closed with Carol Sears' commentary on the papers including the observation that actuaries need to help educate workers on the new risks they face.

Session 3: Improving Models for Saving for Retirement

William Leslie led off this session with his views on how a retirement income program could provide the basis for better retirement savings in the 21st century. The program he proposes is based on software that Leslie developed, as part of an SOA research project. The software, which is available on the SOA Web site, provides an illustration of the risk/reward trade-off of transferring longevity, investment, and inflation risks. Mark Iwry and David John then co-presented their proposal for an automatic IRA intended to make saving easier, more convenient, and consistently accomplished. Their proposal would feature direct payroll deductions into a low cost, diversified individual retirement account for those employees that currently do not have access to such type of saving. Rob Brown provided stimulating commentary on both of the papers and some observations from the Canadian landscape.

Session 4: Beyond the Horizon

Session 4 provided some of the more forward-thinking perspectives of the symposium. Chiu-Cheng Chang began with an observation of the evolving knowledge-based economy and its global impact for this century. Using this increasingly common economy characteristic as a framework, Chang proposed a prototype social security system called the National Provident Fund that would be fully portable and reciprocal across national boundaries. Bing Chen then discussed how an intragenerational funding approach might spread risks from those older persons who live longer to those who do not live as long and from those who are healthier to those who are less healthy. Using the U.S. and New Zealand as illustrations, Chen envisions intragenerational funding as a supplement, rather than a replacement of existing intergenerational programs. Kevin Binder, the discussant for the session, gave his views on how concepts from the papers might be incorporated for a practicing actuary's benefit.

Session 5: Social Balance

Jon Forman and Adam Carasso began this session with their thoughts on how a Mandatory Universal Pension System (aka MUPS) could fill the gap between what current retirement systems provide and that needed for future financial retirement security. In the long run, they estimate that a MUPS could replace an additional 14 percent final wages, over and above Social Security benefits. Gopi Shah then presented a paper she co-authored with John Shoven and Sita Slavov that explores the disincentives for working longer--even though life expectancy has increased--that are inherent in the current U.S. Social Security system. She presented some alternative approaches that would help to counteract these disincentives, while maintaining benefit neutrality. Emily Kessler commented on both of the papers noting that they exposed weaknesses in the system, while posing practical questions on each of the proposals.

Session 6: First Steps Toward Tomorrow

The final session of the symposium featured Carol Sears and Scott Miller presenting their vision of a new kind of plan, called the Retirement Income Security Plan (RISP). Essentially, a RISP would be a companion, catastrophic-coverage-only plan featuring an annuity payable for life with a benefit schedule that increases as the annuitant ages. Donald Fuerst then presented Mercer's proposal for a new concept in pension benefit design called a Retirement Shares Plan (RSP). From an underlying theoretical perspective, the RSP transfer investment risk and return to the plan participants while retaining and pooling the longevity risks. Fundamentally, it would be similar to a career accumulation plan where the value of retirement shares is dependent on the investment performance of the plan's assets. Anne Button served as the discussant for this session, commenting upon the papers and tying them into the Pension Section's Retirement 20/20 effort.

Lunch Sessions

Highlights of the symposium also included two lunch sessions featuring Henry Eickleberg of General Dynamics explaining his views from an employer perspective on where DB plans and retirement, in general, are headed; and Rob Brown and Emily Kessler discussing results of a survey given to attendees on the first day of the symposium. The survey included questions on what roles employers and the government should play in retirement plans and potential plan changes. You can read more about the results of this survey in another article in this issue.

Monograph

An online monograph with the papers presented at symposium along with discussant comments has been produced and is available on the SOA Web site. We would encourage you to review the monograph and read papers of interest to you. We hope this stimulates you to think creatively about the future of retirement.

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Conclusion

The Pension Section is committed to playing a role as a leader in re-envisioning retirement through this and its Retirement 20/20 effort. We hope you'll learn more by visiting the Retirement 20/20 Web site at www.retirement2020.soa.org and the Pension Section Web site. We welcome your ideas for helping us move forward with this goal. Please feel free to contact any Pension Section Council member or SOA staff with your thoughts.