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INTERNATIONAL SYMPOSIUM

Mortality and Longevity

Aging and Retirement

Fully Funded Pensions for Centenarians

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Fully Funded Pensions for Centenarians

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Executive Summary

At retirement, workers want to have enough income to support themselves throughout their retirement years. In that regard, financial planners often suggest that retiring workers should aim to replace 70 to 80% of their annual preretirement earnings. Social Security benefits typically replace around 35% of the typical worker's preretirement earnings. That leaves another 35 to 45% of preretirement earnings that needs to be financed through pensions and other savings, but most retirees have little in the way of other savings. Accordingly, this Paper focuses quite simply on how pensions alone could and should be designed to replace, say, 40% of the typical worker's preretirement earnings throughout their retirement years. In particular, this Paper is concerned with how to fully fund private pensions for centenarians (i.e., retirees who live to be 100 or more).

After some introductory remarks, Section II provides an overview of Social Security, pensions, annuities, and other lifetime income mechanisms, and Section III focuses on funding issues for Social Security and pensions. Section IV then explains pension benefit accrual and pension funding. First, Section IVA develops a model traditional defined benefit plan that would provide a typical retiree with a pension that would replace 40% of her preretirement earnings, and Section IVA also shows how to fully fund that model plan. Second, Section IVB then develops a model defined contribution plan that would replace 40% of a typical retiree's preretirement earnings and shows how to fully fund that model plan. Section V then brings some real world considerations into the analysis, and Section VI discusses some options for reform, In particular, Section VI considers various options for redesigning—and fully funding—real-world defined contribution and defined benefit plans. Finally, Section VII offers some concluding remarks.

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