SOCIETY OF ACTUARIES

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A View From the SOA's Staff Fellow for Retirement

By Mary Stone

The Retirement Section Council recently held a meeting in Montreal. We were grateful to be joined by two distinguished Canadian actuaries, Assia Billig, chief actuary of the Canada Pension Plan (CPP) and Michel St-Germain, recently elected president-elect of the Canadian Institute of Actuaries (CIA).

Assia Billig provided an update on the recent changes to Canada Pension Plan/Quebec Pension Plan (CPP/QPP). Enhancements to CPP/QPP went into effect on Jan. 1, 2019. Driven in part by the decline in employer-sponsored retirement programs (especially in the private sector) and the associated increase in the number of families at risk of insufficient savings at retirement, the additional CPP/QPP benefits increase the overall replacement ratio. The benefit enhancements are funded by additional contributions. The CPP enhancements include sustainability provisions that establish parameters to define by how much and for how long the additional minimum contribution rates which fund the additional benefits may deviate from the legislated rates before action is required to adjust benefits and/or contribution rates. These provisions aim to preserve the financial sustainability of the enhancements, ensuring stability of the additional contribution rates and reducing the risk of reductions in benefits and/or increases in contribution rates. The enhancements are being phased in over 40 years.

Michel St-Germain met with us to speak about the CIA's public statement on "Canada's Actuaries Call for Discussions on Retirement Age." This public statement proposes changes to the target, minimum, and maximum retirement ages for the CPP/QPP, Old Age Security Program (OAS), Registered Pension Plans and Registered Retirement Savings Plan (RRSP) programs. The statement encourages all Canadians to engage in a healthy and much-needed discussion of changing societal needs

and the best retirement program designs to support those needs. Significantly, the proposed changes do not include reductions in benefits, rather the focus is on adjusting retirement expectations to reflect the changing realities of longer working periods and longer life expectancies. Those participants that defer commencement of these retirement programs will receive higher lifetime income with inflation adjustments, providing enhanced protection later in life.

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Both Canadian topics were very interesting and demonstrate how valuable it is to share experiences across countries to spur thinking on such important issues.

The Retirement Section Council is continuing to pursue opportunities for retirement actuaries to consider focusing on defined contribution (DC) plans for a broader, more holistic view of retirement. With the recent passage of the SECURE (Setting Every Community Up for Retirement Enhancement) Act in the U.S. House of Representatives by a vote of 417–3, strong bipartisan support may lead to passage by the Senate in the near future. This legislation could lead to increased use of annuity options and overall greater focus on the payout phase of defined contribution plans. The SECURE Act includes a safe harbor provision for plan sponsors to select annuity providers in order to offer annuity options inside of a 401(k) plan. The Act also includes required disclosure of lifetime income that the plan account balance is expected to generate in retirement. Actuaries have a great deal to offer in helping plan sponsors evaluate and communicate annuity and other distribution options within defined contribution plans as well as in designing lifetime income disclosures that are reasonable and useful to plan participants.

Following along the theme of ensuring retirement needs are met in today's environment, the Society of Actuaries has sponsored several research projects focused on retirement income, primarily in employer-sponsored defined contribution plans. There are five projects in this series, all done in collaboration with the Stanford Center on Longevity. Four of the projects have been completed, covering considerations for plan sponsors and analytical models to evaluate the effectiveness of various strategies. The fifth project is complete and ready for release soon. It focuses on a retirement drawdown strategy of late claiming of Social Security plus taking the Required Minimum Distribution as a default option. As with the CIA retirement age public statement, claiming Social Security at a later age generates a higher amount of inflation-protected lifetime income.

In closing, I encourage everyone to stay informed about the changing regulatory framework in the U.S. and Canada. The Retirement Section will continue to support research and other opportunities for retirement actuaries to enhance their knowledge and skills in the evolving retirement landscape. ■

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