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Perspectives From Anna: Important Issues Related to Retirement Security—Reports From Discussions

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I attended three different meetings in May 2019: the annual meeting of the Plan Sponsor Council of America (PSCA), the annual symposium of the Pension Research Council and an Employee Benefit Research Institute (EBRI) Policy Forum. Together these three meetings offered different perspectives on what is important to different stakeholders as we think about retirement security today. This Perspectives offers my views after participating in these three different conversations and thinking about what I heard.

The PSCA focused heavily on the issues of importance to plan sponsors and on practical solutions to improve the operations of plans. The Pension Research Council meeting provided a series of papers[1] with an academic focus. The 2019 topic was "Remaking Retirement: Debt in an Aging Economy." The EBRI policy forum focused on current retirement policy proposals and their potential impact and reactions to them, as well as current research and trends related to health care and financial wellness.

THE POLICY ENVIRONMENT

Both proposed federal legislation and the development of state-sponsored plans are expected to extend access to retirement plans through the employer to those who do not have it now. At a minimum, these plans will offer payroll deduction and enrollment linked to the workplace. There is an expectation that there may be federal pension legislation, formerly labeled RESA and now labeled the SECURE Act. One of the big issues in this legislation is open MEPs, which will enable entities to sponsor multiemployer plans when there is otherwise no relationship between the entities. The sponsor of the MEP will have the fiduciary liability and be responsible for compliance, freeing the employer from these responsibilities. The idea is to increase the number of smaller employers who offer access to some arrangement for retirement savings. This is very important because people are much more likely to save for retirement through a plan offered at the worksite than through an individually secured individual retirement account. The expectation is that these newly authorized arrangements will be easy for small employers. This legislation has been under consideration for several years, but it is unclear how many new employers will choose these programs as long as they are voluntary.

An alternative approach is for the states to adopt savings plans that offer coverage to people who are not covered by employer plans. A number of states are working on them, but not many have been implemented yet. Unlike the open MEPs, some of these state plans would have a mandate so that employers who are not sponsors of a plan will be required to do payroll deduction for the state plan. This may encourage them to set up their own plans or join the open MEPs if they get started. These plans will bear watching. It's quite possible that the state plans may face challenges, but that will be known only after implementation. They are being set up to not fall under ERISA and the participants will not have the same level of fiduciary protection as under ERISA.

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The SECURE Act will also likely have several provisions dealing with lifetime or post-retirement income, including a safe harbor for annuity purchase from a DC plan and a requirement to show income on DC plan statements. That is based on the legislation as proposed in May 2019.

There is also another effort in Congress—the Retirement Security and Savings Act—sponsored by Senators Portman and Cardin, that "… addresses four major opportunities in the existing retirement system:

- Allowing people who have saved too little to set more aside for their retirement;
- Helping small businesses offer 401(k)s and other retirement plans;

- Expanding access to retirement savings plans for low-income workers without coverage; and

- Providing more certainty and flexibility during Americans' retirement years."

The Government Accounting Office, in a recent report, called for a major study of national pension policy. None of the current activity addresses all of the issues the GAO raised. The last major study of U.S. pension policy was during the Carter administration.

Employer Activities and Interests

There were several areas of benefit plan design and structure that got attention in the meetings. These areas include:

- Income options for the post-retirement period—there was a lot of discussion and there seems to be a number of firms developing approaches but not much has actually happened. Two of the provisions in the Secure Act would make this easier. There was discussion about how to use behavioral finance more effectively to get good outcomes for the post-retirement period. There appears to be a lot of agreement about the need for organized rational solutions for retirement income and the payout period but not much agreement about the specifics. Many employers and retirement experts recognize that the long-term success of the defined contribution system depends on successful outcomes during the payout period.

- Health savings accounts (HSAs)—these arrangements are growing in popularity and are viewed as a preferred method of pretax savings and funding for medical care (but also for retirement in general). They are being integrated with 401(k) as a retirement approach and there was an example/case study discussed at the PSCA meeting. Administrative systems are evolving. The big question that comes up repeatedly is whether it is better to save first in a 401(k) or an HSA. One answer to this question is to save in the 401(k) up to the match limit, and in the HSA up to its limit, and only then more in the 401(k). There are likely different opinions on this topic. Some vendors are producing planning tools and statements that enable employees to look at the interaction of different combinations of HSA and 401(k) contributions.

- Student loan payoff provisions linked to retirement plans—there was a session at the PSCA on legal issues including a legislative proposal and a private letter ruling. There is a private letter ruling supporting a company making contributions to the 401(k) (similar in general concept to a match) when the employee makes loan repayments.[2] There seems to be quite a lot of interest in this, but I do not have a clear

picture of the pros and cons. Two of the reasons for wanting to do something about this are its appeal in recruiting and the impact of large student loans on an individual's finances. It appears that the consequences of large student loans can easily be years of paying them off, delayed family formation and delayed homebuying, all leading to delay in saving for retirement.

- Health costs are rising and continuing to crowd out and consume retirement savings—not a new topic.

- Financial wellness continues to be a hot topic. There was discussion about holistic approaches to financial wellness, but that does not seem to include comprehensive attention to risks in some cases. One of the things mentioned in discussions of wellness is personalization, and big data plays a major role in supporting enhanced personalization. There is a strong focus on debt, cash flow, and budgeting. There are as many definitions of financial wellness as there are groups participating in some way in this market.

- Auto features including auto-enrollment, default investments and auto-increases have grown in popularity over the years. However, it was pointed out that each feature is a two-edged sword. They increase participation but tend to inhibit personal engagement. When employees have to make choices and study options, there is a better chance that they will be more engaged in taking charge of planning for retirement.

Most of the topics that came under discussion are not new but the capabilities of systems that will need to support them are still evolving. Plan provisions are being refined and software and planning tools are being improved. There is regular discussion about what is needed to make a DC plan an effective retirement vehicle.

RESEARCH ON DEBT AND RETIREMENT SECURITY

The Pension Research Council papers focused on the growth and importance of debt. There has been a significant increase in both personal and institutional debt in a number of countries. Research from the IMF indicates that added debt often leads to greater economic growth for one to three years, and to slower growth thereafter. It leads to more fluctuation in business cycles and deeper recessions. The paper "Understanding the Macro-Financial Effects of Household Debt: A Global Perspective" provides an exploration of research into results from 80 countries. Among advanced economies, the median debt ratio rose from 52 percent of GDP in 2008 to 63 percent in 2016. The U.S. is not the country with the most personal debt relative to size of the economy. Canada and the UK have relatively more personal debt. Italy has relatively little. Japan and the U.S. are in the middle. The paper "Aging and Debt in Japan" provides insights into these five countries.

Personal debt has grown significantly. Many of the conference participants were very concerned about the impact of growing and lingering debt on retirees. There are differing views on this point, and others did not see it as a major problem. The Society of Actuaries report "Financial Risk Concerns and Management Across the Generations"[3] provides insights into what people say about how important debt is in managing finances. That study indicated that of the retired generations (early boomers and silents), 63 percent said they had debt, and 14 percent said that their level of debt was complicating their ability to manage their finances. In contrast, 77 percent of the millennials said they had debt, and 34 percent said debt was complicating their ability to manage their finances. For Gen X, the figures are 83 percent and 26 percent. For the early boomers, they are 74 percent and 17 percent. Participants in the Pension Research Council discussion projected that the next cohorts will be worse off in retirement. The decline of defined benefit plans, increasing medical costs, shifts to fewer jobs with good benefits, and longer periods of retirement are all potential contributing factors to greater financial insecurity for retirees.

Personal debt is different at different points in the cycle. There has been a particularly large growth in student loan debt, particularly for Millennials. Mortgage debt (and home ownership) has not grown for millennials, while mortgage debt is the greatest among Generation X. There is some student loan debt at all generations. It can be for the individual at that age, or for a child or grandchild. Retirees are more likely to have mortgage debt than in the past. The Pension Research Council symposium includes considerable floor discussion. While the papers focused heavily on retirees, there was a lot of focus on millennials in the floor discussion.

One of the issues discussed was whether there was a clear link of personal debt to the great recession. There was no definitive answer to this question, but it seems clear that some individuals were affected a great deal by the great recession and that they experienced long-term effects. Two areas of importance were job losses with long periods until the next—often much lower paid—job, and big declines in housing values. Some people experienced foreclosures, but even those who did not were often affected by the declines in housing values. Housing values in some areas have fully recovered while many others have not.

At the Pension Research Council meeting, the paper "Financial Distress Among the Elderly: Bankruptcy Reform and the Financial Crisis" focused on bankruptcies and foreclosures and their impact on retirees. Both of these challenges present growing problems for retirees. This paper indicated that the percentage of bankruptcy filings by the elderly increased from

6.0 percent in 2000 to 7.2 percent in 2008, and to 13.5 percent in 2017. The corresponding numbers for foreclosures are 6.8 percent, 6.6 percent and 10.7 percent. The elderly constituted 17.4 percent of the population in 2000, 17.0 percent in 2008 and 20.6 percent in 2017. The increases in population are less than the increase in bankruptcy filings and foreclosures. Still, the elderly are less likely to encounter these situations than the population as a whole. The paper explored the impact of the 2005 bankruptcy reform and the financial crisis and finds that while they increased the number of bankruptcy filings, they do not explain the full impact on retirees.

Another paper, "Nightmare on Main Street: Older Americans and the Mortgage Market," documents the increasing percentage of older Americans with mortgages, the increasing amounts of those mortgages and the increasing rate of foreclosures. While the older individuals did better than the younger population, they still had many problems. Of the families age 75 and over, 6.3 percent had mortgage debt in 1989 and that had increased to 24.2 percent by 2010. The median value of the mortgage debt was $11,800 in 1989 and $52,000 in 2010. Foreclosure rates at ages 75 and older were 0.33 percent in 2007 and 3.19 percent in 2011, an almost ten-fold increase. Foreclosures were higher for subprime mortgages and for nonwhite borrowers.

Other issues included the influence of debt on retirement decisions and fragility.

MY VIEW OF WHERE WE ARE TODAY

It is widely recognized that debt is a major problem for many households. Debt has increased as a challenge over time. For any individual household, debt can be good or bad, or something in between. Debt has enabled a much better life for some families, by helping them to get education that supported a good career, or by helping them buy an affordable house, or by helping them establish a good business, strong credit rating, and so on. For others, it has become a major problem and they have become overextended. Maybe they borrowed too much, or ran into problems, making it difficult for them to repay the debt. Student loans are particularly likely to be troublesome for people who did not finish their programs and for some who enrolled in online programs. The same people who have problems with debt tend to also have problems with budgeting and managing day-to-day expenses. SOA research on financial management across the generations consistently found that meeting day-to-day expenses—often artificially fueled by easy credit—are the top priority.[4]

Employers and advisors have recognized the importance of day-to-day money management and using debt wisely. This has led to the development of financial wellness programs and the trend to move from retirement education and planning to a focus on broader, lifelong financial wellness. These programs vary and overall they incorporate a wide variety of different options. They will continue to evolve as employers work to help employees do a better job of managing their own finances.

The retirement system as it exists today works well for people with many years of service covered by a reasonably generous retirement plan, be it DB or DC. But for many others it does not work well. Proposed legislation may fill in some gaps, but it does not deal very well with the big picture. There is a need for a more comprehensive review of policy. We need to preserve what is working well and fix what is not. ■

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ENDNOTES

1 The papers from the Pension Research Council will be published as working papers later in 2019 and most of them will be included in a book to be published in the next year or two. They will be available for download from the PRC website. In the interim, this article provides links to the 2019 PRC Symposium presentations on these working papers and to a prior paper.

2 It was also reported that attempts to get more general regulatory guidance on this issue have not been successful. Provisions related to student loans and linking them to 401(k) are included in proposed legislation.

3 This report is one of a series of reports analyzing a 2018 survey of the U.S. public by generation. The number of people surveyed was 2,001. The population surveyed covers all income levels. The Pension Research Council papers analyzed various surveys of financial information over time and recently. This survey looks at what people said.

4 Financial Perspectives on Aging and Retirement Across the Generations, Society of Actuaries, 2018.