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PERSPECTIVES FROM ANNA: THINKING ABOUT THE FUTURE OF RETIREMENT AND EMPLOYEE BENEFITS

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The Employee Benefit Research Institute celebrated its 35th anniversary in December with a policy forum, *Employee Benefits: Yesterday, Today and Tomorrow*. The forum featured a star-studded panel. As I listened to the speakers, it made me think about key issues that we will need to address for benefits today and in the future. This article reflects my personal perspective on what I heard. I recognize that there may be contradictory viewpoints on each issue listed. This perspective combines ideas from the policy forum and other meetings, and offers some policy ideas for the future, as well as some personal observations. I have divided the discussion into five major topic areas:

- Population issues
- Societal perspective: issues driving employers' approaches to benefits
- Retirement plans and retirement
- Health plans
- Employment and workforce issues

POPULATION ISSUES

The policy forum discussion was heavily focused on thinking about generational differences in the U.S. population. I was a delegate to the 2002 Saver Summit which also focused on this same topic. I sense a renewed interest in this area as *Benefits Quarterly* selected benefit issues connected with generations as a theme for their second quarter 2014 issue. I have an article in that issue titled "Reflecting Generational and Life Cycle Issues in Benefit Plan Management."

Below are the notes that I made as I thought about the presentations:

- Boomers differ from the prior generation (Silents), as they have less coverage under defined benefit plans and are not retiring as early. A comment was

made about a growing number of homeless Boomers. I had not considered that issue.

- Boomers want to age in their own homes, and want to be near kids. Some will move to be near family, particularly when there are grandchildren.
- Silents were well educated, risk averse, covered by DB plans, affluent, had intact marriages, and were generally in good health.
- 80 percent of post-65 Americans live independently, 16 percent with other family members, four percent in institutional settings (like nursing homes).
- Gen X was hardest hit by the great recession; some show new frugality—work less, spend less, spend more time with kids, keep life simple, do-it-yourself culture. I was surprised by this comment about the great recession, and think it bears further review and study.
- Millennials are different: they want advice and have solid relationships with their parents.
- We should also remember that the Boomers are a very large group, currently entering traditional retirement ages. My sense is that they have more debt than the groups before them, and higher expectations. They started work during the time that paternalism was still common, jobs were more plentiful, salaries were increasing beyond the cost of living and employer provided DB plans and health plans were the order of the day. The culture changed around them, mid-career, but many of them did not understand the implications or adjust well. (Early Boomers had much better access to good jobs than the second half of the Boomer group.)

SOCIETAL PERSPECTIVE: ISSUES DRIVING EMPLOYERS' APPROACHES TO BENEFITS

I heard a number of big picture issues that impact employer philosophy and practice:

- The failure to have a national retirement and long-term security policy is a problem. I completely agree.
- Employers differ with regard to their organizational philosophy about retirement security and some employers are in transition. Employers are trying to balance business needs, a competitive environment and employee needs.
- There is a societal loss of longer-term thinking leading to a short-term focus. The evolution of accounting rules requiring market valuations and focus on quarterly financial reporting have contributed to shorter-term thinking. The focus on market values is particularly impactful.
- Many policymakers and others have forgotten to take a macroeconomic view. Budget scoring using “tax expenditures” has changed the way Congress thinks about employee benefits and financial security. This is an important point that I had not considered previously, and I suspect many other actuaries may not have considered it.
- There is no strong Congressional leadership around employee benefits, and when combined with the influence of the more extreme parts of political parties, this creates a problem for sensible benefit legislation.
- There have been many unintended consequences of public policy. For example, while ERISA served to improve financial security in its early years, that changed later as raising tax revenues became one of the Government’s main objectives. Regulation can protect participants but it can also drive plan sponsors away.

- Complex rules are a big problem: regulations have become far too complex and are creating problems for the system. My view is that there are too many benefit areas where multiple agencies are involved, and where insurance and benefit regulation get intertwined.
- Technology and better choice options create opportunities for more effective benefits. But the various generations use technology in different ways when handling finances and when communicating. Dealing with the generational issues creates challenges.
- Portability is an important issue in light of emerging demographics and work patterns.
- I believe that there is a big difference of opinion on the importance of risk pooling in the future and its value.

My policy wish list includes:

Address national retirement policy issue. It would be very desirable to develop and implement a unified retirement policy for the United States. And even though this seems to be impossible in the current partisan environment, this should continue to be on the list of what needs to happen.

Unify and simplify regulation, or where not possible, provide “road maps” to enable users to understand multiple regulations. Think about long-term disability regulation as an example. Insurance contracts are regulated by state insurance departments and benefit plans by Federal agencies under ERISA. The Americans with Disabilities Act regulates discrimination in employment and the EEOC also enters the picture. The Social Security Administration deals with both disability and retirement benefits. Some disability is connected to worker’s compensation. It is particularly important that regulations support each other and are not inconsistent where there are multiple agencies or where there is a mix of state and federal regulations.

RETIREMENT PLANS AND RETIREMENT

There are major challenges in the U.S. retirement system. Below is my synthesis of some of the comments I heard from the EBRI Policy Forum, the 2014 Society of Actuaries Living to 100 Symposium and other conversations.

- There has been a major move from DB to DC, but individuals are not positioned to make good decisions. We need to focus on making DC plans a more effective retirement plan.
- DC plans can produce adequate retirement benefits (with adequate savings over a long enough time period). Default options are an important element, but are not enough to ensure adequate benefits. Contributions are a major driver of success in DC plans. Both employers and employees need to increase their share of contributions.
- There are very diverse views about the future. Some observers see the death of DB vs. others who focus on new types of risk pooling arrangements that share risk differently. There are also split views on cash balance plans—with different views of their pros and cons. I hope that the new arrangements will grow and that new options will be accepted by policy makers and in the marketplace. The 2014 Pension Research Council conference will focus on a number of new designs.

JOB OPTIONS FOR RETIREES WHO WANT TO CONTINUE WORKING ARE IMPORTANT. A FOCUS ON FLEXIBLE AND PHASED RETIREMENT WOULD BE VALUABLE IN CREATING SUCH JOB OPTIONS.

- At the EBRI policy forum, it was noted that PBGC premiums have become a real barrier to DB plans.
- There are mixed views about the value of and importance of pooling risk. This is particularly important with regard to mortality risk.
- Longer lives should mean longer work lives; retirement age is a big issue and has not kept up with longer lives. This was a key point of discussion at Living to 100 Conference, but was hardly mentioned at all in other forums. It has been pointed out that while life spans have increased a great deal overall, there is a huge amount of variation by group. For example, economic status is correlated with differences in life spans.
- Job options for retirees who want to continue working are important. A focus on flexible and phased retirement would be valuable in creating such job options.
- Job options and work for older Americans were also big discussion topics at both Living to 100, and a forum sponsored by TIAA-CREF in November, 2013. In March, 2014, I was contacted by both a writer working on a story for the *New York Times* and *National Public Radio* on issues related to phased retirement and working in retirement. While this is not a new subject, there seems to be a lot of interest in it at present. This may be the result of Boomers moving into retirement ages.
- At the EBRI policy forum, one of the statements that jumped out at me was that lump sums have damaged the retirement system. A new aspect of lump sums today is that some companies have made lump sum offers to retirees who were already receiving pensions. The pros and cons of lump sums from both

plan sponsor and participant point of view would be a good subject for debate.

- One of the major challenges of a system built on defined contribution plans is that most plans do not include a mechanism for paycheck replacement. It is unclear to me how much interest plan sponsors have in providing lifetime income or any system for paycheck replacement. Where DC plans are primary retirement savings vehicles, I see this as an extremely important topic. This is a major topic of focus for the actuarial profession and the Committee on Post-Retirement Needs and Risks.
- One of the things to watch for is new investment paradigms and options.
- There is a diversity of opinion with regard to how retirement ready the population is, as well as how to actually define retirement readiness. Regardless of the standard used, there are many people reaching traditional retirement ages who have limited resources. Social Security is critically important for much of the population. It is the only source of income for a substantial group of people, and the most important source of income for many more. It is a very important part of retirement, except for the highest income and asset holding Americans. For about three-quarters of the population, it is extremely important.
- Long-term care and major health risks both are very important issues, with the potential to create major problems for retirees. When planning takes these shocks into consideration, the solutions will likely be better than they would have been if they had not been considered. Holistic approaches are important.
- An issue not raised at the Policy Forum and often not raised is the impact

My policy wish list includes:

Enabling new retirement plan designs: There is growing recognition that new plan designs which enable risk pooling and more risk sharing offer alternatives to the public that are better than either the traditional DB or DC.

Encourage more use of Lifetime Income Options:

Offer safe harbors for a menu of default options for the post-retirement distribution period.

Facilitate individuals taking a portfolio approach and annuitizing a little bit at a time. Offer safe harbor to employers who offer a menu of choices for the distribution period—think of it as similar to 404(c)

Offer safe harbor options for illustrations of income in statements. Include showing a range rather than single number as an option covered by the safe harbor.

Disability: Make it possible to provide for continued 401(k) contributions during periods of long-term disability. This is the equivalent of a waiver of premium provision that is available in life insurance, or it can also be viewed as equivalent to continued crediting of service in defined benefit plans.

of long-term disability on retirement security. This is particularly difficult in a DC environment, and this issue also needs attention.

HEALTH PLANS

I am not an expert on health plans and benefits, but am very aware that employer health benefit spending has crowded out retirement benefit spending, and health care benefits have been vital not only to the competitive employment package, but also to retirement security. The EBRI policy forum provided me with ideas as we think about how health benefits fit and where they might be going. I heard the following comments:

- While most employers have not abandoned their health plans, with the introduction of the Affordable Care Act, some have made and/or are predicting changes.

- Private exchanges enable real DC health plans, but might lead to a pull back on wellness benefits.
- Private exchanges may also lead to meaningful health care cost management on an industry level.
- New ideas are enabling employers to hold employees more accountable for health outcomes—a hope was expressed that these ideas will not be lost.
- Boomers are less healthy than the generation before them. Today’s workforce is subject to a great deal of stress, time pressure and uncertainty or change.
- A significant share of health costs are lifestyle related.
- Health problems today: 33 percent of workforce depressed, 33 percent overweight, 40 percent are stressed, 20 percent high blood pressure.
- Dementia is a big problem, particularly at older ages.
- Some employers are reducing or eliminating spousal coverage where the spouse has other coverage options.
- Disability benefits and approaches need to be modified to fit longer work life.

My comment to add to this discussion is that I believe that the competitive employment proposition will likely change. If the exchanges are successful and individuals have good options to get health coverage without employer based coverage, health benefits will be much less important in the employment package. A key question for us is what will take its place and how will the competitive employment package emerge.

Another big topic with regard to health plans in the current environment is retiree health benefits. Employment based post-retirement medical benefits have declined for many years. I believe that they will decline even further in the new environment, increasing the needs for cash and pre-retirement savings, particularly by early retirees.

EMPLOYMENT AND WORKFORCE ISSUES

The world is changing rapidly and the workforce is aging. The conversations at EBRI, at the World Future Society annual meeting in 2013, at Living to 100 in 2014, and at the TIAA-CREF meeting on working longer have led me to think about some key points with regard to the evolving workforce.

CONCLUSION

Thank you to EBRI for an interesting and stimulating policy forum; to TIAA-CREF for focusing on work at older ages; and to the Society of Actuaries’ Living to 100 effort to stimulate broad thinking about longer life spans.

A lot is happening in the economy, the workplace, and with employee benefits. Many moving parts affect each other. As actuaries,

My policy wish list includes:

Phased retirement, longer work and later retirement ages: Over the long run, it is really important to facilitate longer work and to encourage employers to offer phased retirement.

- Develop safe harbors for creative work arrangements and the rehire of retirees with key focus on bona fide termination of employment
- Consider new classifications of workers tailored to encore careers
- Undertake broad review of policy with regard to both retirement ages and phased retirement
- Enable private plans to increase normal retirement ages
- Adjust disability policy to coordinate with higher retirement ages

we need to think about this complex environment, and how we can contribute to the discussion by integrating what is happening around us with the systems on which we are working. We live in a time when Boomers are reaching retirement age and if for no reason other than their sheer numbers, we will likely see a continuum of their impact on and changes in society that they have had all of their lives reflected in changes in what we think about and how the patterns of retirement are evolving. Their actions impact not only them, but also the generations to follow. Our challenge is to find solutions that fit the evolving world, and to help others find solutions that fit their needs.

SOCIAL SECURITY IS THE ONLY SOURCE OF INCOME FOR A SUBSTANTIAL GROUP OF PEOPLE, AND THE MOST IMPORTANT SOURCE OF INCOME FOR MANY MORE.

For more information on how individuals are looking at retirement issues, look at the [research](#) from the Society of Actuaries Committee on Post-Retirement Needs and Risks. A separate article in this issue discusses the results of 2013 Society of Actuaries retirement risk survey. ■