

# National Retirement Policy Objectives: Are We on the Same Page?



AMERICAN ACADEMY OF ACTUARIES

**ANNUAL MEETING**  
AND  
**PUBLIC POLICY FORUM**

2017

**NOVEMBER 14-15**



**FAIRMONT HOTEL**

**WASHINGTON, D.C.**

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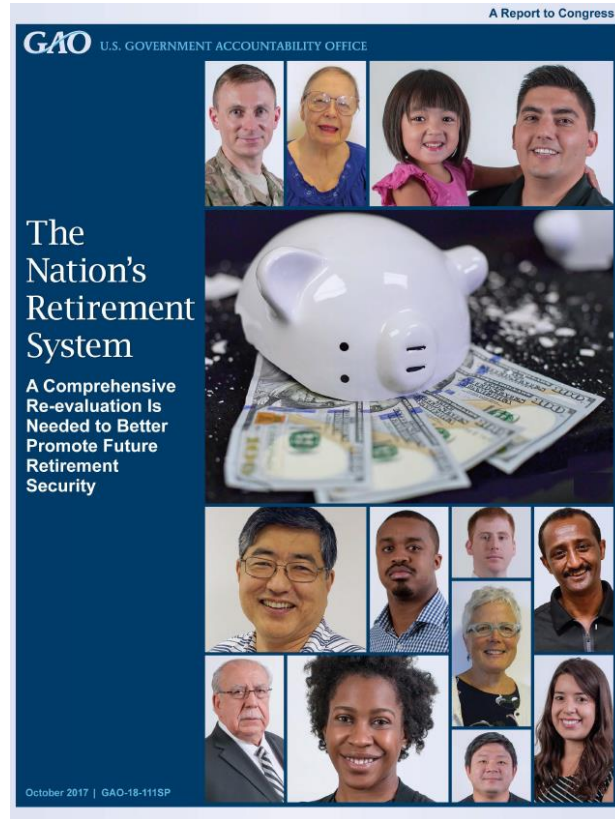
# Speakers

- ❑ Ted Goldman, MAAA, FSA, FCA, Sr. Pension Fellow  
American Academy of Actuaries
- ❑ Frank Todisco, MAAA, FSA, FCA, EA, Chief Actuary  
U.S. Government Accountability Office
- ❑ Andrew Biggs, Resident Scholar  
American Enterprise Institute
- ❑ Josh Gotbaum, Guest Scholar  
Brookings Institution



# Today's Agenda

Frank



Andrew



Josh



# Introduction

- “Retirement” is something **everyone** aspires to
- Each of us has our own situation, it’s hard to solve with an app
- Human behavior is a big driver – which makes it even messier, but also one of the keys to unlock the puzzle
- The population is aging, so no better time than the present to put this on the table
- But it’s not a burning platform – so it will be especially difficult to effect action now; the longer we wait, the harder it becomes to solve





Frank Todisco, MAAA, FSA, FCA, EA, Chief Actuary  
U.S. Government Accountability Office



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# GAO Report on Nation's Retirement System

- *The Nation's Retirement System: A Comprehensive Re-evaluation Is Needed to Better Promote Future Retirement Security* (October 2017)
  - GAO-18-111SP, <https://www.gao.gov/products/GAO-18-111SP>
- Performed under Comptroller General's authority
- Recommends Congress establish an independent commission to comprehensively examine the U.S. retirement system and make recommendations to:
  - Clarify key policy goals, and
  - Improve how the nation promotes retirement security



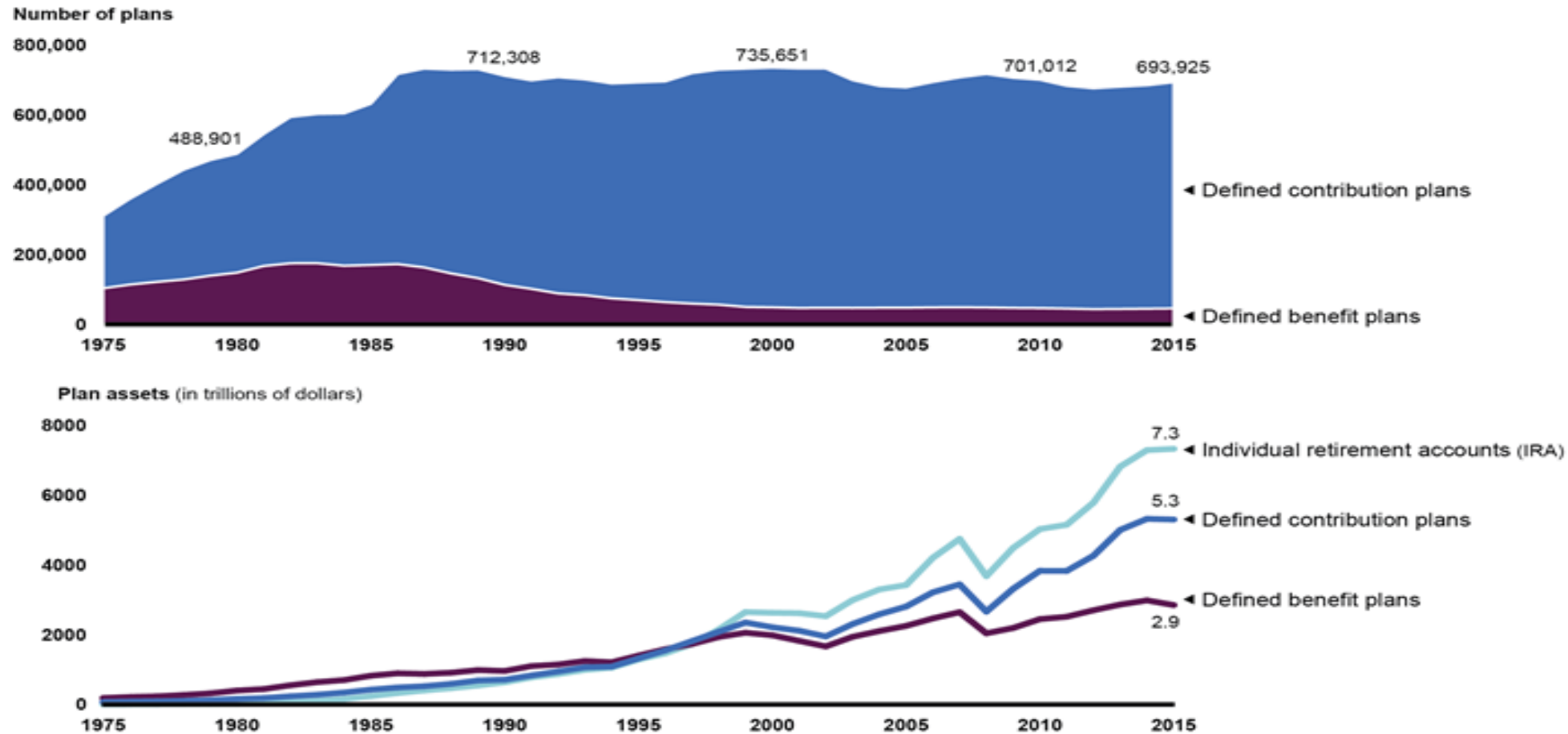
# Four main sections of report

- Shifting landscape over past four decades
- Key challenges faced by individuals in planning and managing their retirement
- System risks, fiscal risks, and benefit adequacy concerns
- The need to re-evaluate the nation's approach to financing retirement





# Shifting landscape over past four decades



Source: GAO analysis of data from the U.S. Department of Labor and the Investment Company Institute. | GAO-18-111SP



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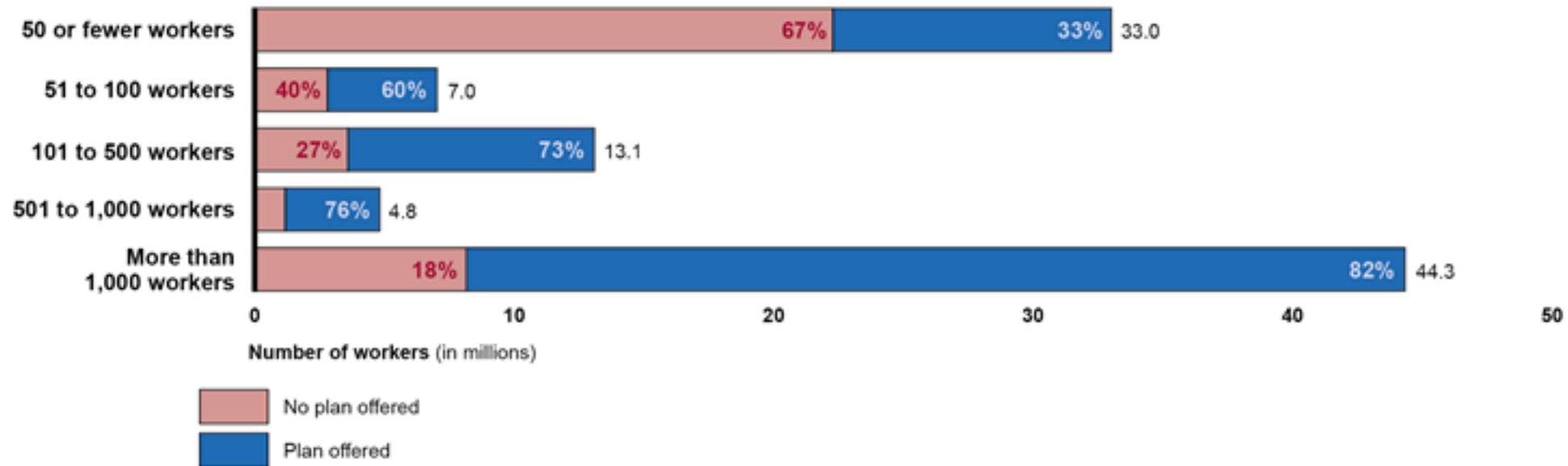
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# Shifting landscape over past four decades

- Slow wage growth
- High levels of household debt
- Rising health care costs
- Increased longevity
- Changes in household composition
- Low interest rates



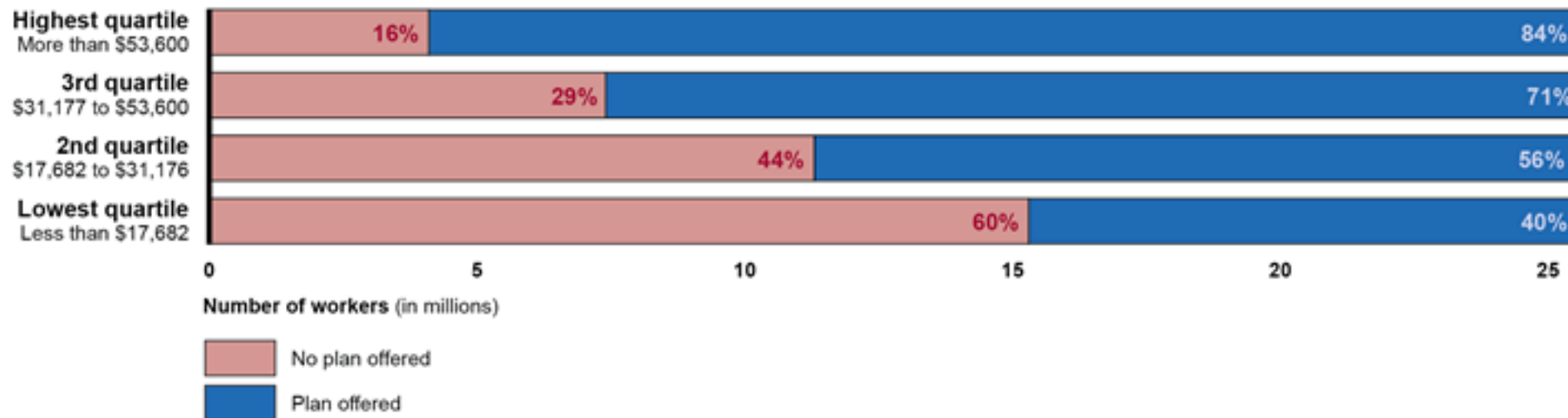
# Key challenges faced by individuals – Access



Source: GAO analysis of weighted Survey of Income and Program Participation (SIPP) data for private sector workers, 2012. | GAO-18-111SP



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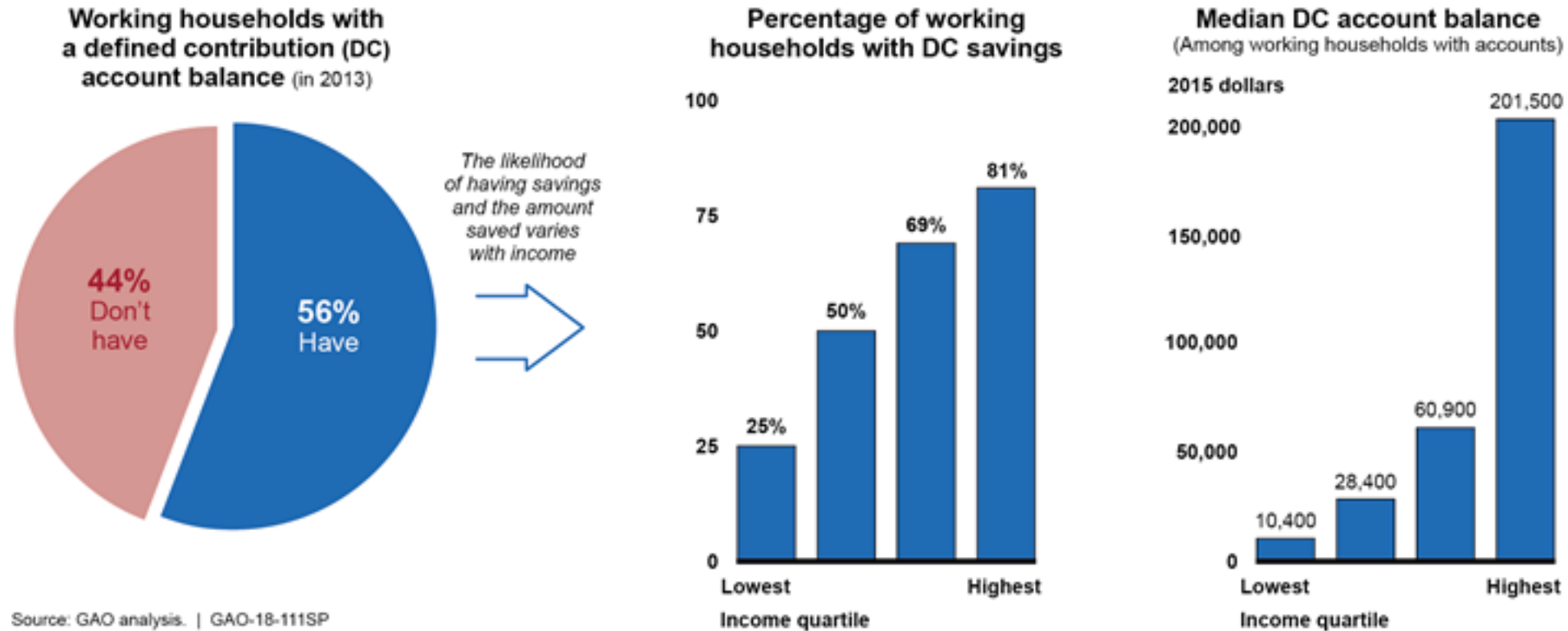
# Key challenges faced by individuals – Accumulation

- If offered a DC plan
  - Whether to participate
  - How much to contribute
  - What to invest in
  - Decisions when changing employers or experiencing a setback
- If only option is an IRA
  - No employer match
  - Lower contribution limits
  - No professional management, often higher fees





# Key challenges faced by individuals – Accumulation



Source: GAO analysis. | GAO-18-111SP

Note: These statistics include IRA balances in the “DC” category.

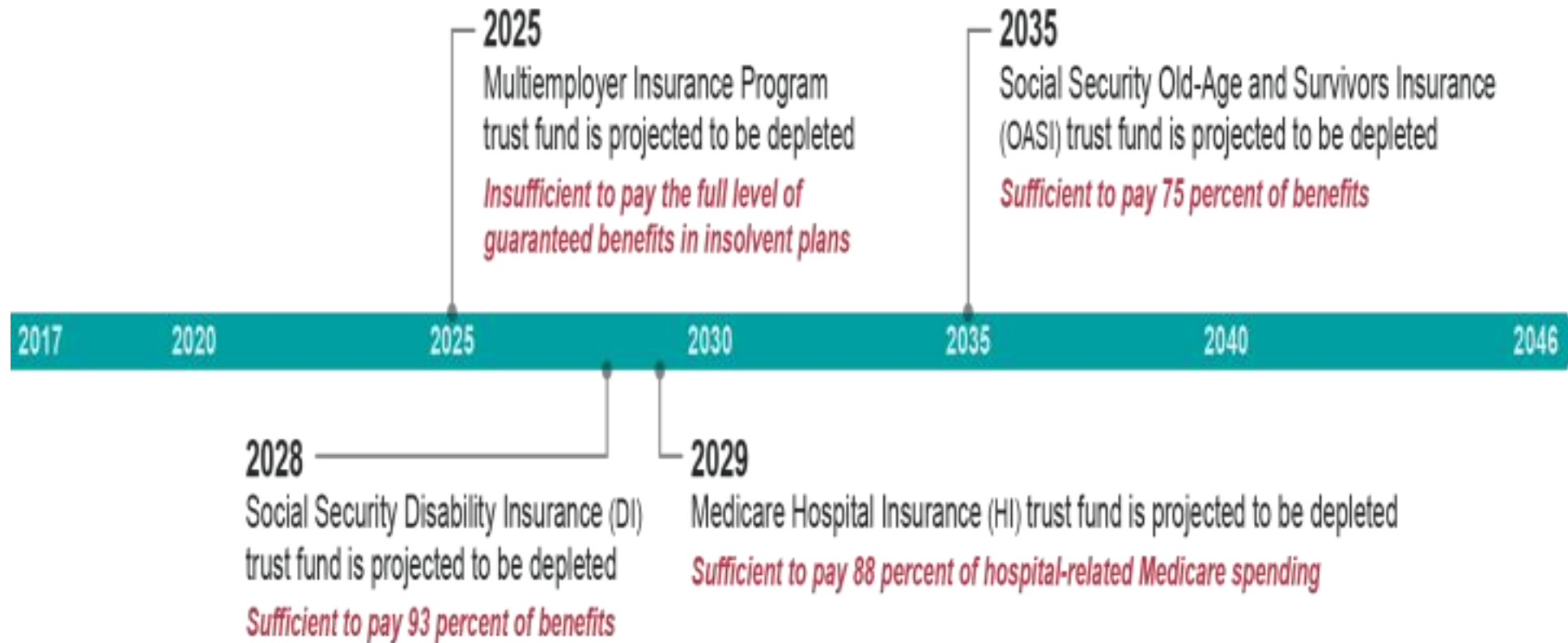


# Key challenges faced by individuals – Retirement income

- Ensuring resources last throughout retirement
  - Lack of in-plan lifetime income options
- Managing resources later in life
  - Financial literacy
  - Complex draw-down decisions
- Challenges for those who need or expect to continue working



# Funding shortfalls and fiscal risks



# Funding shortfalls and fiscal risks

- System funding shortfalls and risks
  - Low DC/IRA savings: How many households will not have accumulated enough?
  - Social Security
  - Medicare
  - Multiemployer plans and PBGC program
  - Public sector plans
  - Public assistance programs
- Long-term fiscal outlook: unsustainable on current path



# The need to re-evaluate

- Fragmented system – Tendency has been to expand the number of programs and policies rather than consolidate and modernize government's efforts
- No single agency responsible for overseeing U.S. retirement system
- Nearly 40 years since a federal commission has examined retirement issues comprehensively
- Some retirement policy decisions driven by unrelated legislation and scoring rules





# Policy goals for a reformed U.S. retirement system

- Promote universal access to a retirement savings vehicle
- Ensure greater retirement income adequacy
- Improve options for the spend-down phase
- Reduce complexity and risk for participants and sponsors
- Stabilize fiscal exposure



# Matter for Congressional Consideration

“Congress should consider establishing an independent commission to comprehensively examine the U.S. retirement system and make recommendations to clarify key policy goals for the system and improve how the nation can promote more stable retirement security. We suggest that such a commission include representatives from government agencies, employers, the financial services industry, unions, participant advocates, and researchers, among others, to help inform policymakers on changes needed to improve the current U.S. retirement system.”



Andrew Biggs, Resident Scholar  
American Enterprise Institute



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# What is retirement planning about?

- Poverty protection
  - Staying above some absolute minimum standard of living in retirement
- Consumption smoothing
  - Maintaining a similar standard of living between work and retirement
  - Based on “life cycle model”: individuals seek to smooth marginal utility of consumption



# But there's no agreement on how we're doing.

- Total accrued Social Security benefits & private retirement savings equal to ~\$48 trillion
- Studies find different values of the “retirement saving gap”
  - Academic studies (Gale, Scholz, Seshadri, 2009; Hurd & Rohwedder, 2011): probably less than \$1 trillion
  - Center for Retirement Research: ~\$6 trillion
  - National Institute for Retirement Security: \$14 trillion
- Retirement savings gap ranges from 2% to 29% of savings. Who's right?
- We can't settle the technical issues today. But...





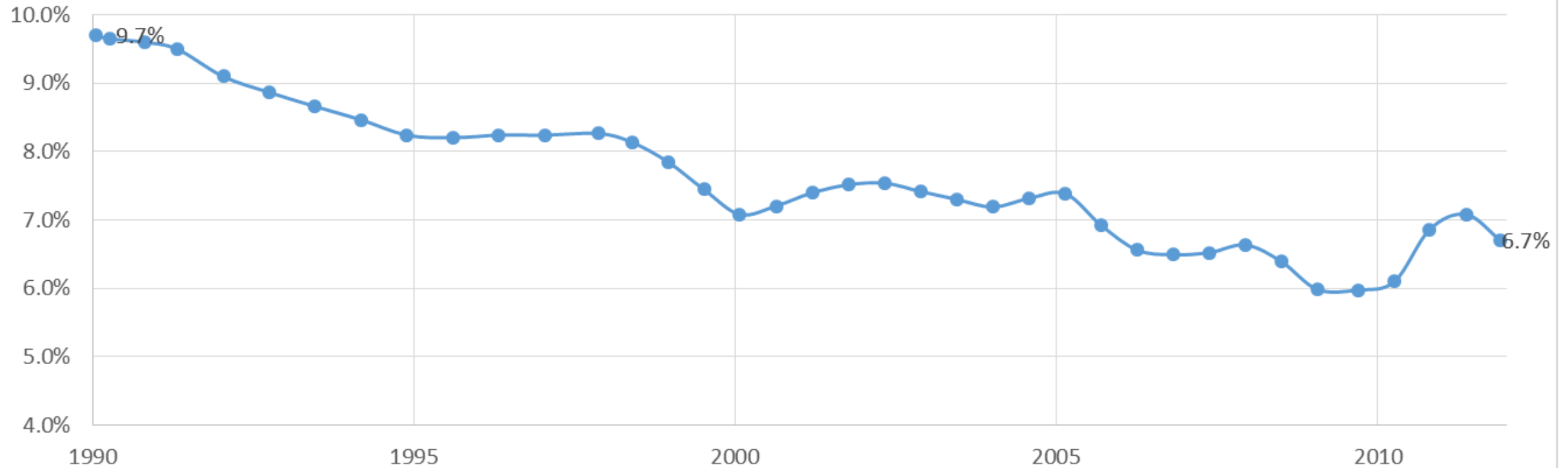
# A Framework for Analysis

- Is there a retirement crisis today?
  - Poverty levels, retirement incomes, replacement rates, self-reported well-being
- Are today's workers saving as much as yesterday's did?
  - Depends upon participation, contributions, savings levels, etc.
  - Noting that lifespans will be longer, etc.
- If today's *retirees* are OK and today's *workers* are saving well, then *tomorrow's* retirees are likely to be OK as well.



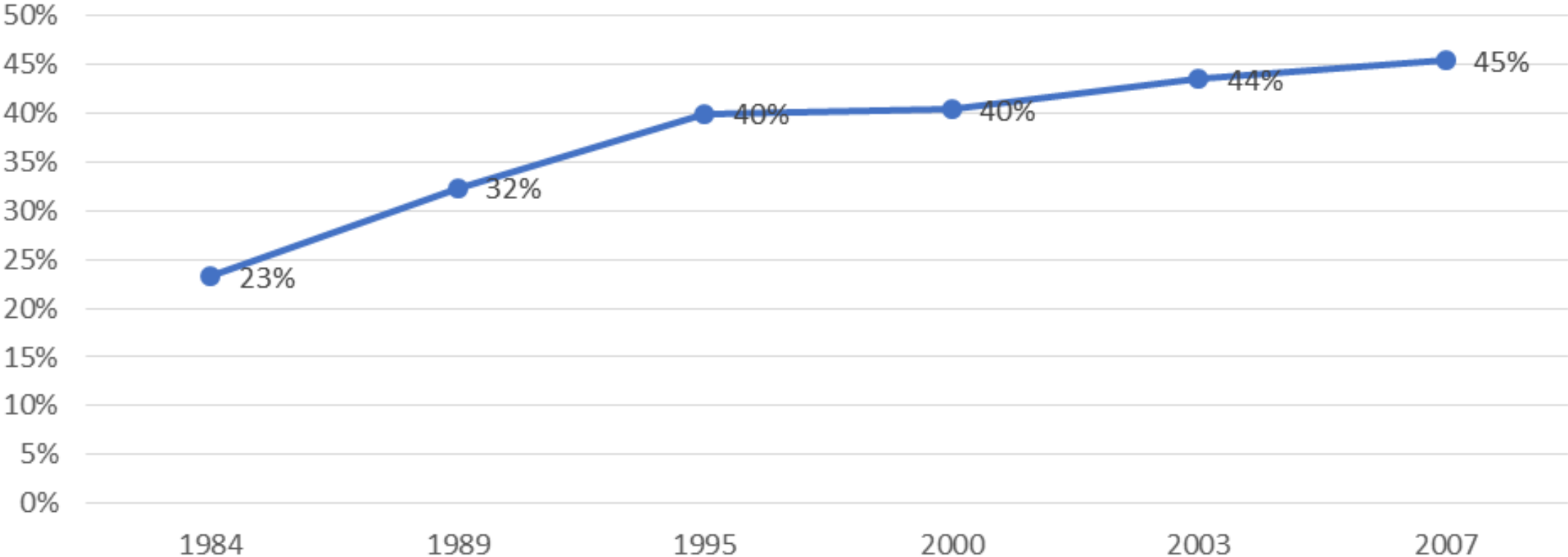
# Poverty in Old Age Falling

Percent of Americans Age 65+ in Poverty. Source: Bee and Mitchell, 2016, using IRS data.



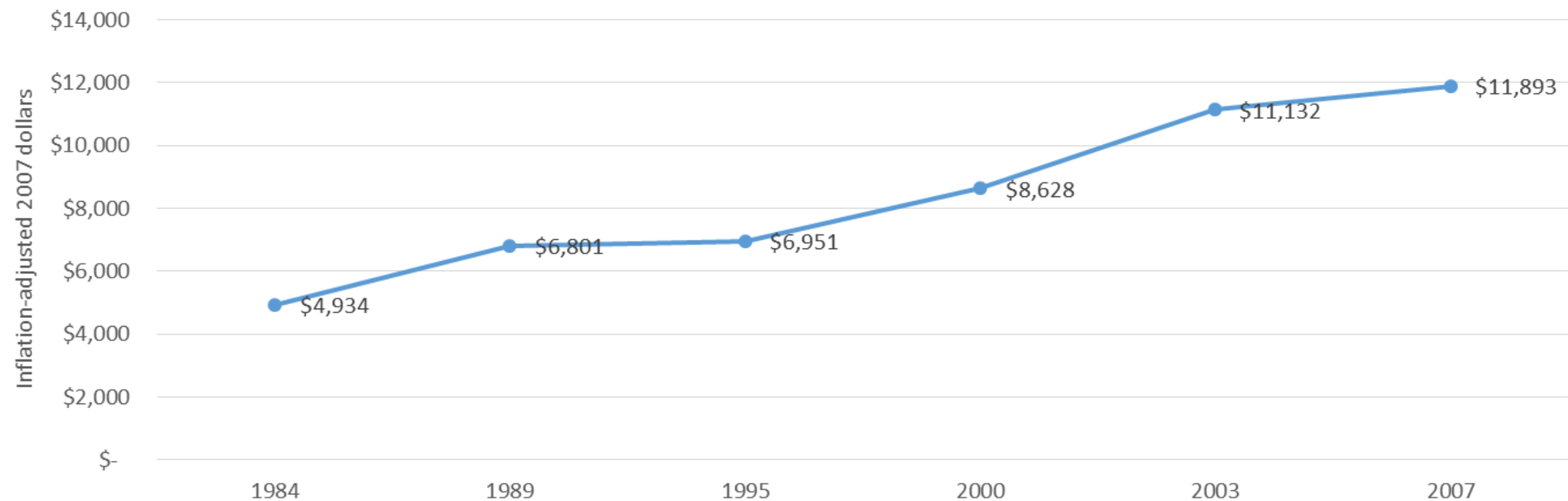
# Share of Retirees Receiving Private Plan Benefits Nearly Doubled

Percent of Households Aged 65-69 Receiving Private Retirement Plan Income. Source: Bee and Mitchell, 2016, based on IRS data.



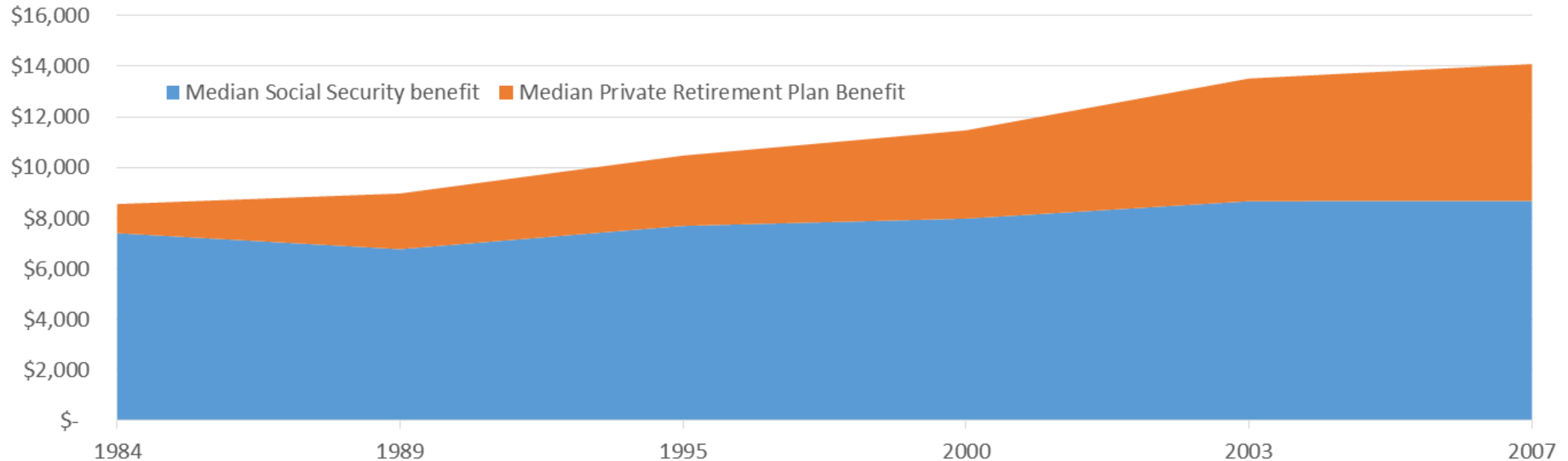
# Private Retirement Plan Income Up 140% Since 1984

Median Annual Incomes Received From Retirement Plans, Retirees Age 66-69 (Source: Bee and Mitchell, 2016. Adjusted for inflation.)



# Today's retirees are *less* dependent on Social Security

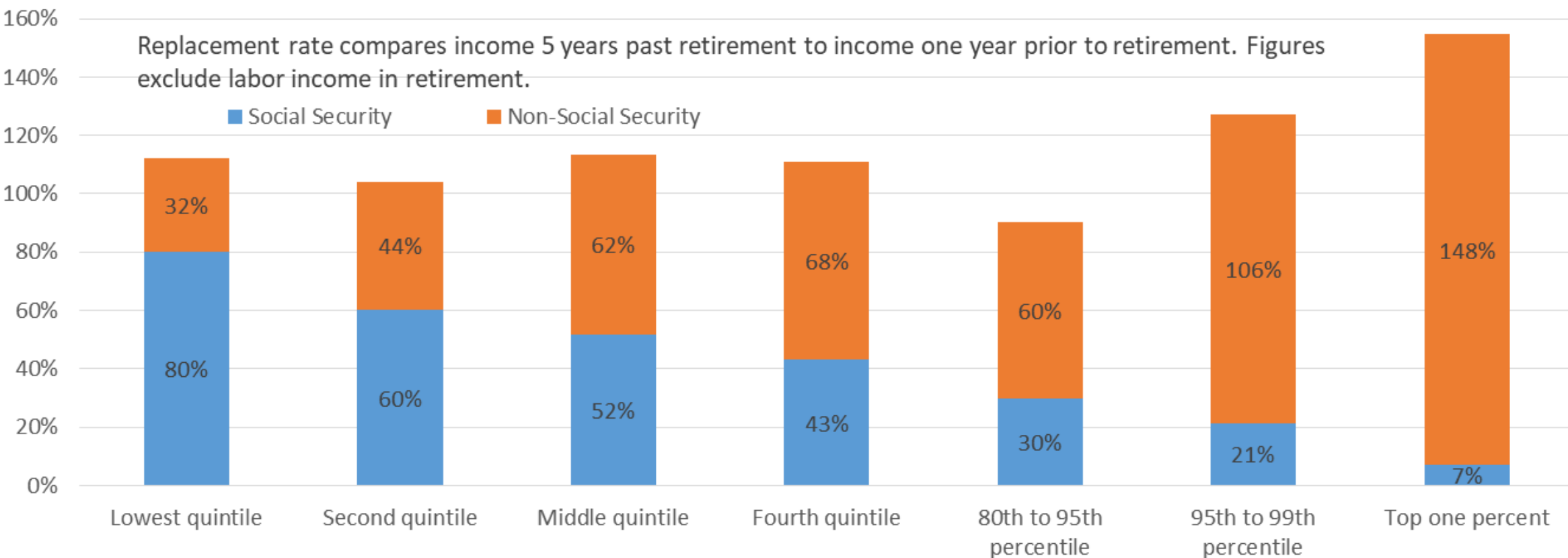
Median Social Security benefits and private retirement plan benefits, new retirees by year. Source: Bee and Mitchell 2016, using IRS data.





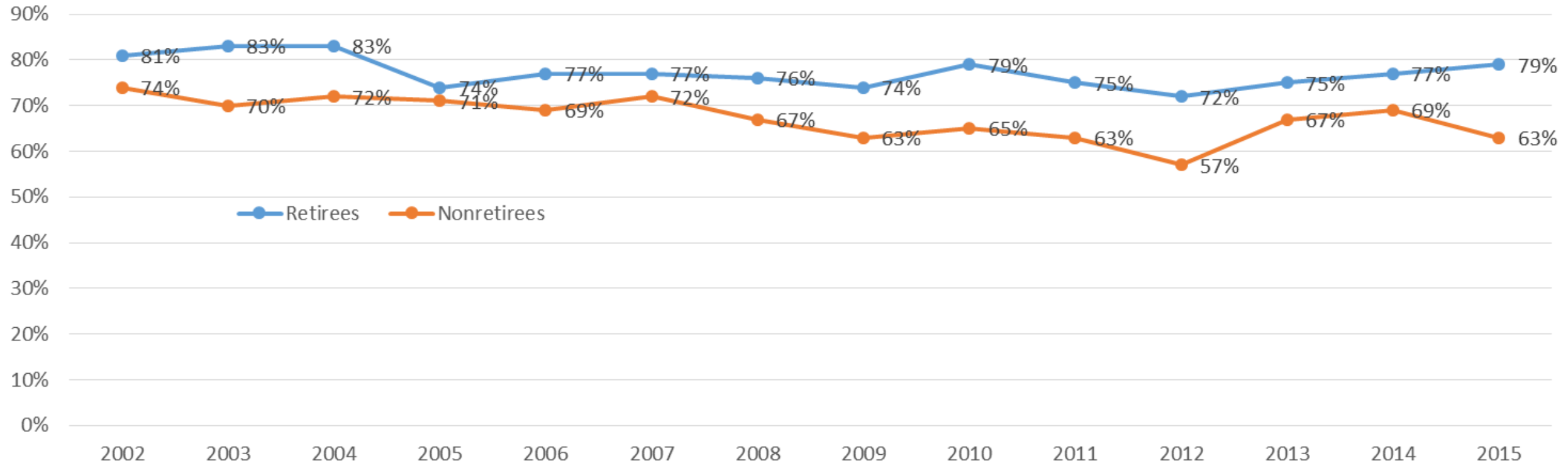
# Typical Replacement Rates Far Exceed 70% Target Level

Mean Replacement Rates by Income Level. Source: Brady et al, 2017, from IRS data.



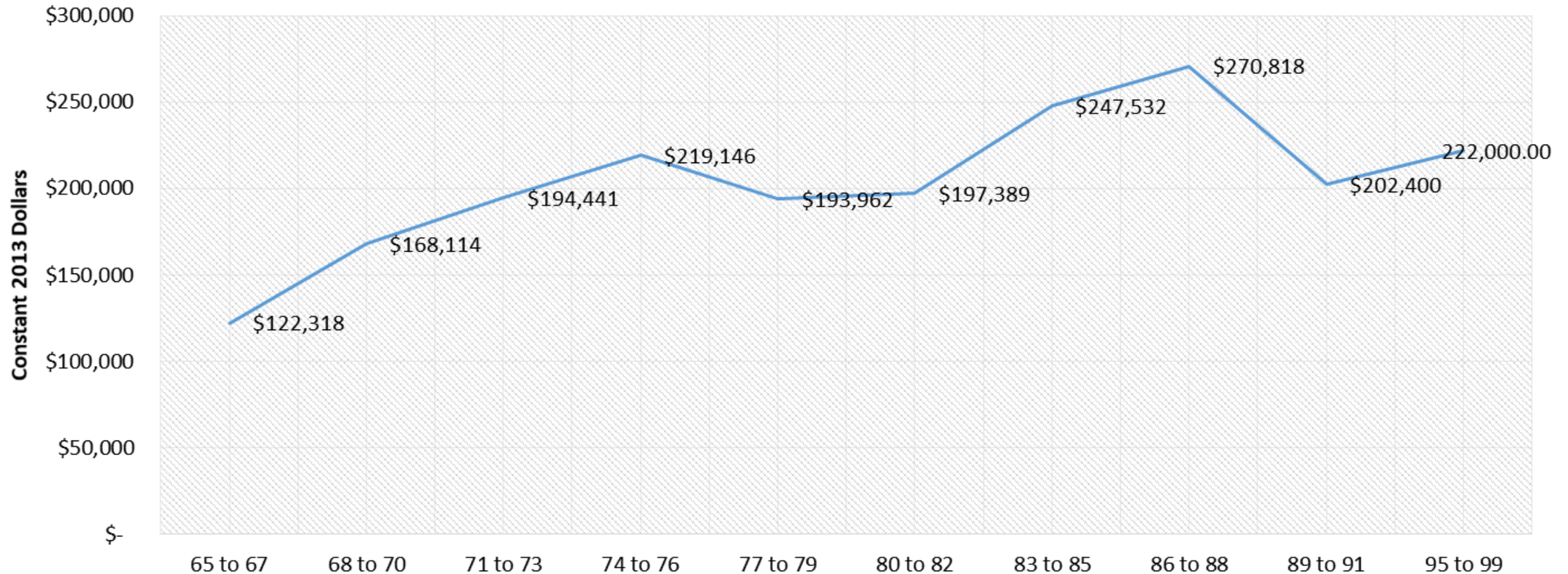
# Most retirees say they're doing fine

"Right now, do you have enough money to live comfortably, or not?" Source: Gallup.



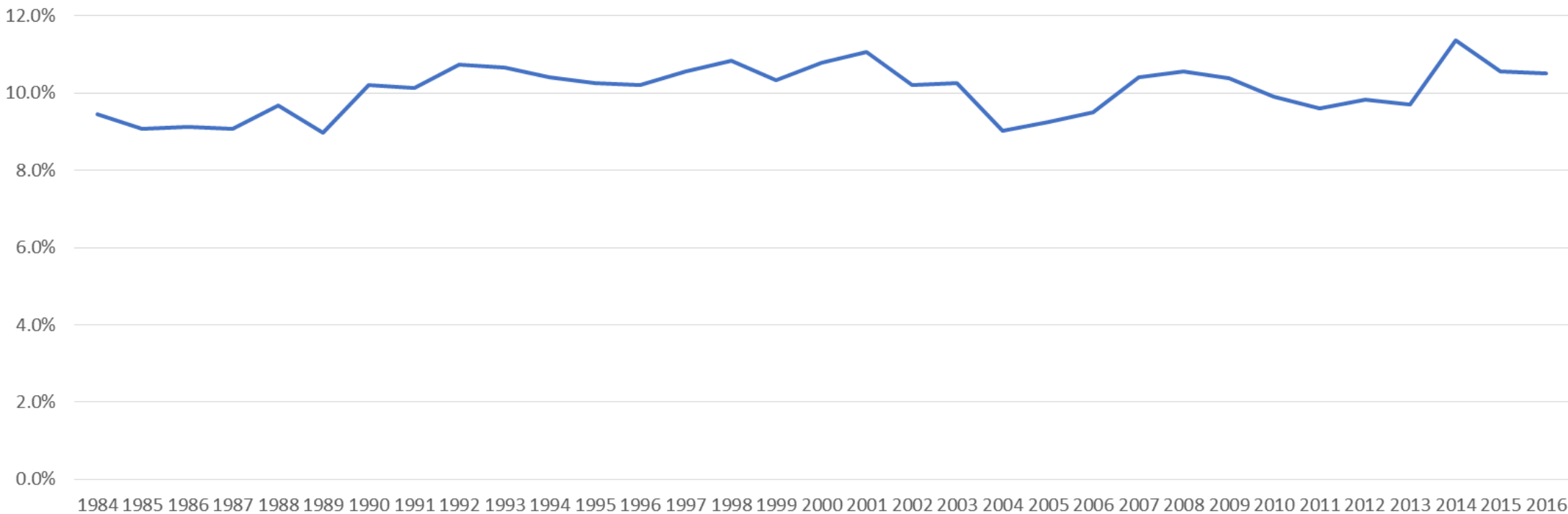
# Retirees *aren't* running out of money

Median Household Net Worth By Age, For Individuals Born 1922-1924. (Source: Survey of Consumer Finances.)



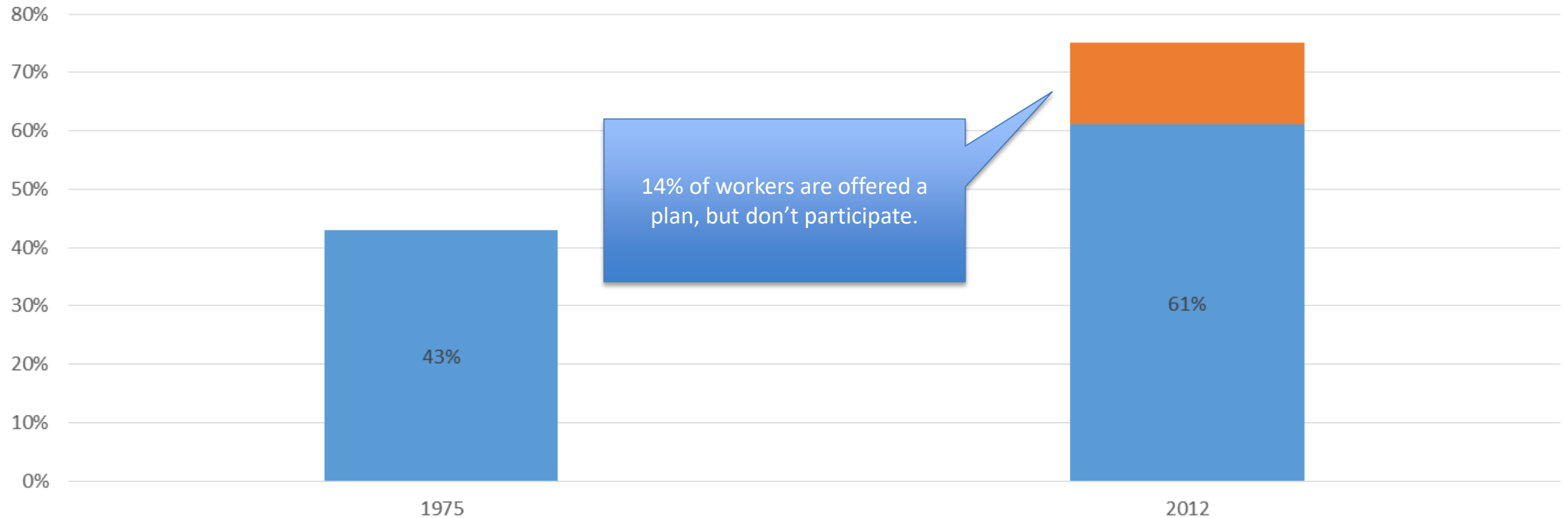
# Retiree Health Outlays *Not* Rising as Percent of Incomes

Health Outlays as a Percent of Income, Households Aged 65 to 74  
Source: Consumer Expenditure Survey



# More Americans are saving for retirement

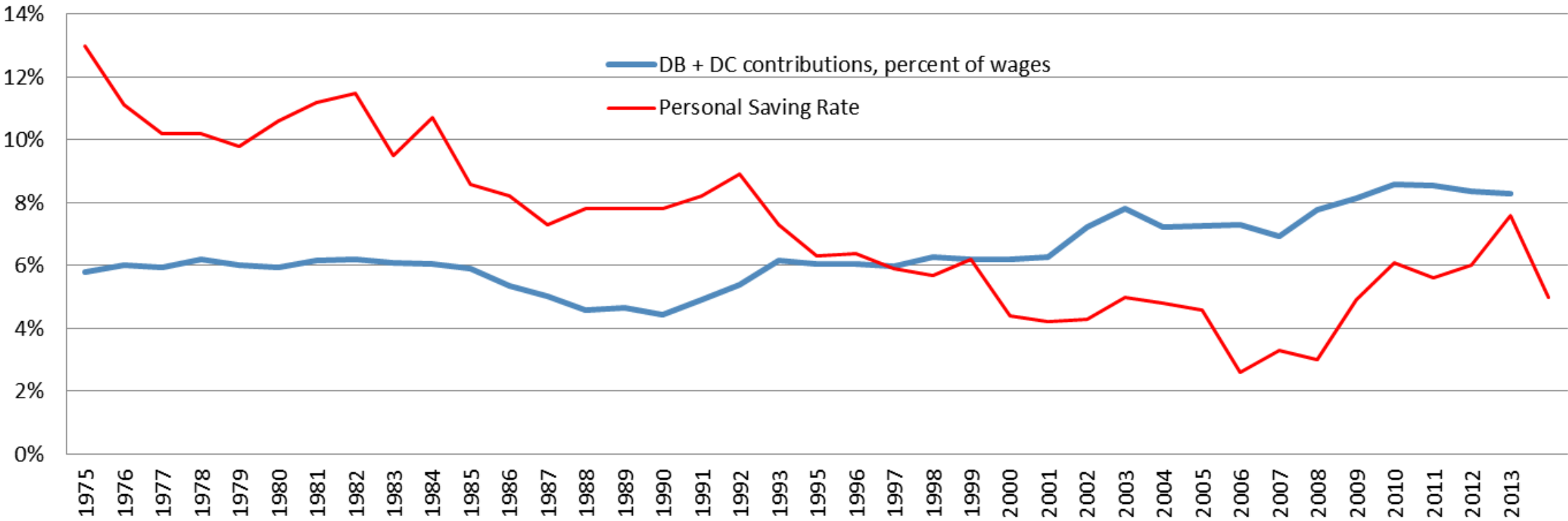
Percent of All Private Sector Workers Participating in an Employer-Sponsored Retirement Plan (All Plan Types). Sources: Gotbaum, Census Bureau and Social Security Administration.





# Retirement plan contributions are rising...

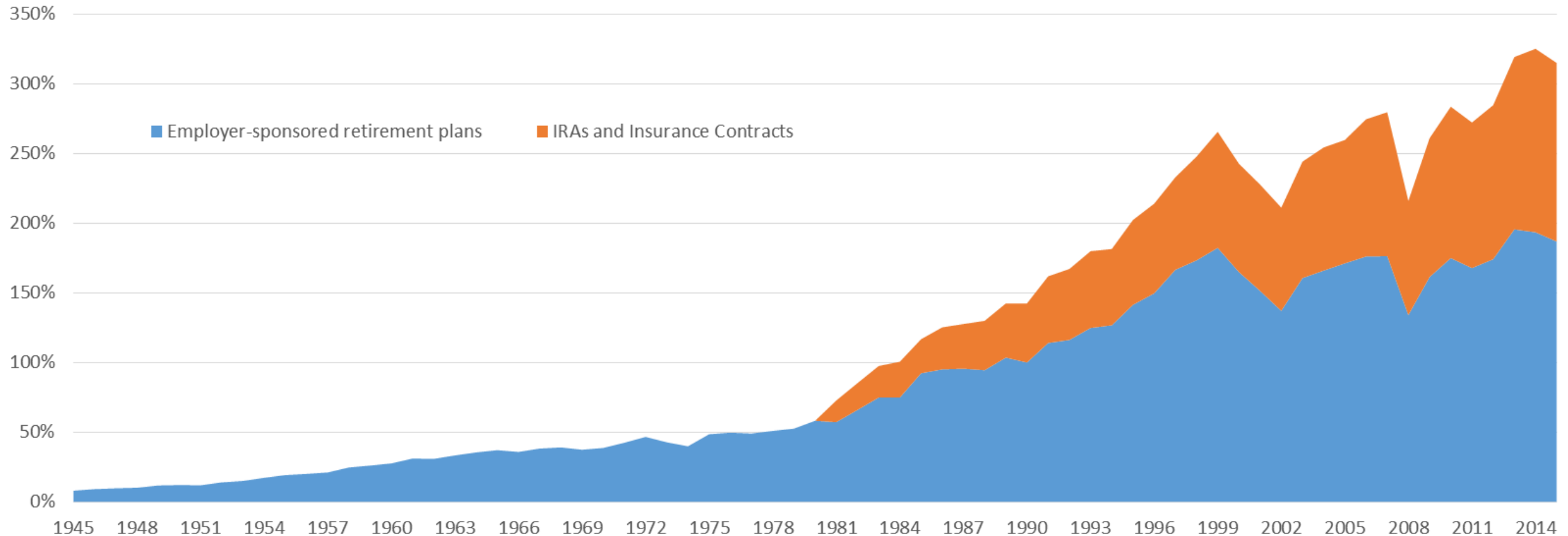
Private Sector Retirement Plan Contributions and Personal Saving Rate  
(Sources: Department of Labor and Federal Reserve)





# ...Retirement Savings are at Record Levels

Retirement Savings as a Percentage of Total Wages and Salaries. Sources: Federal Reserve and National Income and Product Accounts



# Where *is* retirement saving falling short? Government plans

Range of Estimates of Retirement Underfunding by Households and Public Sector. Source: Biggs, 2017.



# What *should* we do?

- Better analysis
  - More administrative data; more rigor; rely less on interest group studies
- Fix the big problems
  - Social Security, PBGC, state/local plans
  - Enhance Social Security benefits for the poor. Don't expand for middle class, rich.
- Pick the low-hanging fruit
  - Make auto-enrollment mandatory for 401(k)s; raise default contribution rate
- The hard part
  - How to expand coverage; whether to embrace state auto-IRA plans; a federal alternative for workers without 401(k)s?



# Retirement Policy: *Are We on the Same Page?*



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**Hon. Joshua Gotbaum**  
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*N.B.: Personal views, not the views of the Academy or The Brookings Institution*

# Experts have well-founded views about retirement



# Do We Have a Retirement “Crisis” or Just a Future Problem Affecting Millions?

- Most current retirees are doing well objectively & are satisfied subjectively – and are considerably better than a generation ago.
- But, absent changes in savings & work patterns, tens of millions of future retirees will likely exhaust private retirement savings.
- To elected officials, not a “crisis”. *To actuaries...?*





# What's Known:

## Today

- ✓ On average, retirees report they're doing OK.
- ✓ More households have at least some private retirement savings
- ✓ Retirees underreport retirement income. Replacement rates at time of Social Security drawdown are much higher than previously estimated.

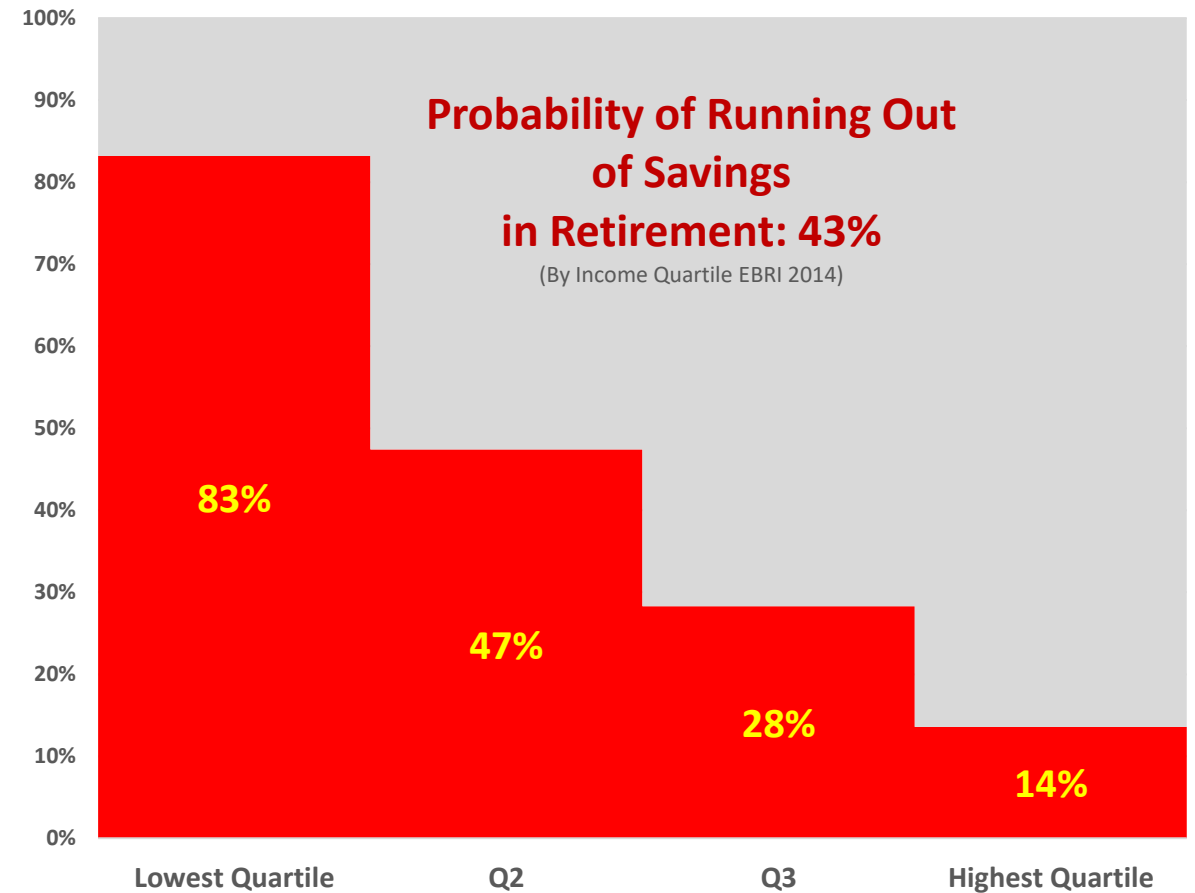
## About the Future?

- ☹ Pre-retirement, more people are worried about running out of money in retirement than anything else. (Gallup 2001-16)



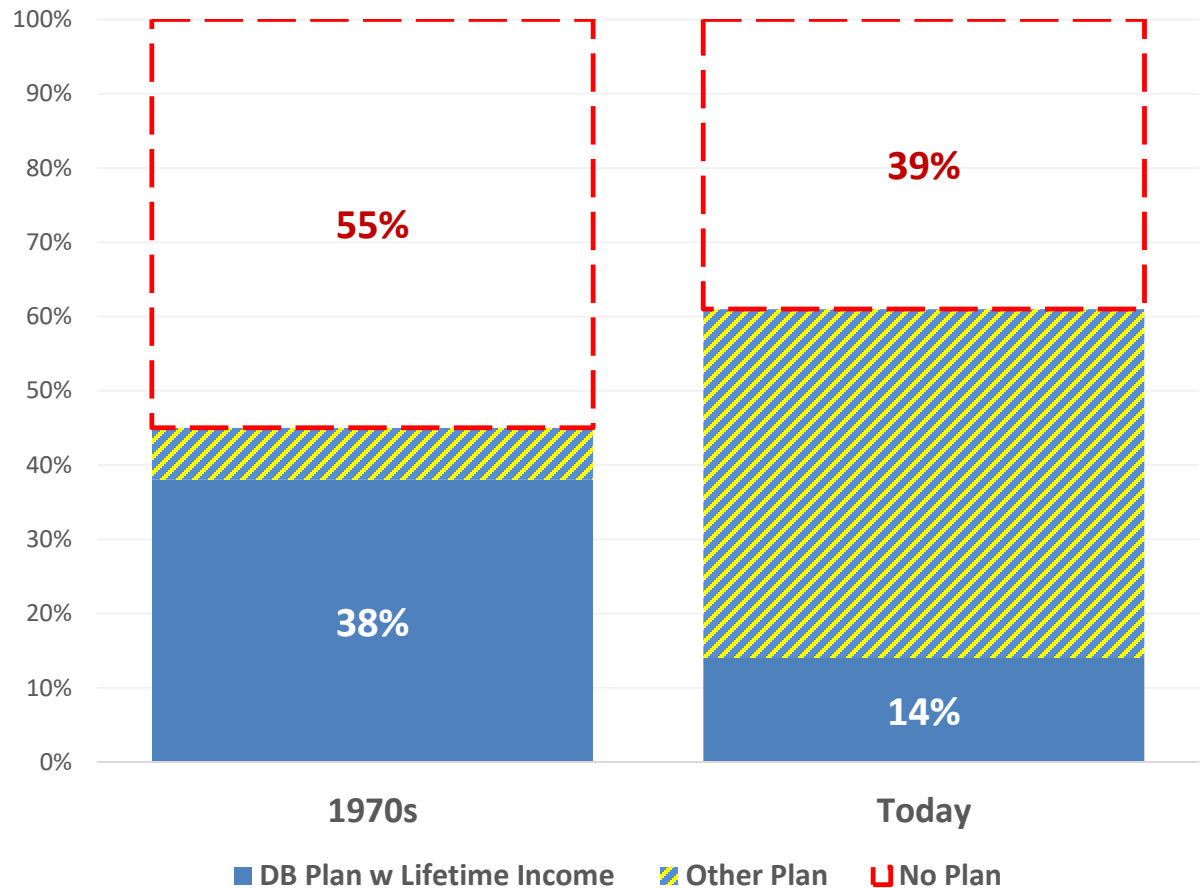
# What's Not Known:

- How many actually will exhaust their savings before dying?  
*EBRI estimate: 43%*
- How many will lower their living standards instead?



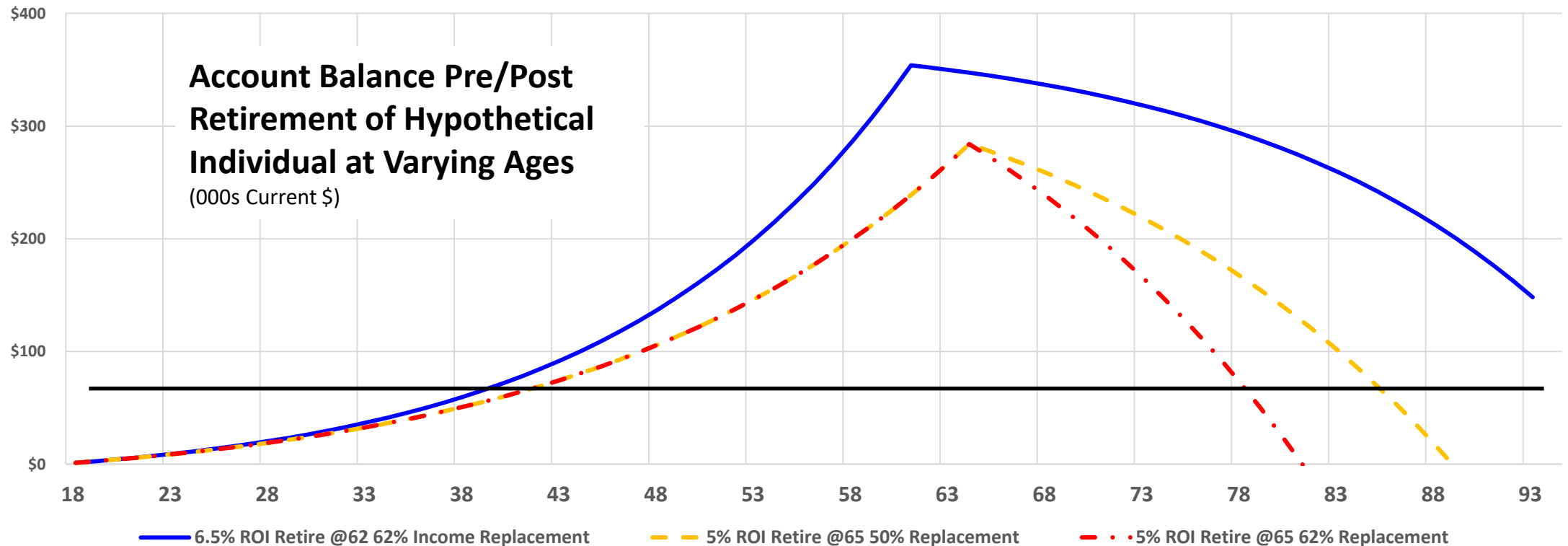
# Coverage

- Coverage has probably improved, but absent Social Security expansion or adequate LTC, is having ~40% uncovered satisfactory?
- Lifetime income protection is an endangered species.



# Adequacy

Even with working longer, will savings increase enough to cover longer retirement?



# What is to be Done? *Much*

- Coverage for the Uncovered
- Preserving DB Plans Where Possible
  - Variable Benefits
  - Realistic Cost Estimates
- Improving DC Plans
  - The anti-Rexit retirement default: Remain in Plan
  - Universal auto-enrollment *and* auto-escalation
  - Partial Annuitization In Plan
  - Real Portability
- Solve LTC Insurance



# The End of “Employee Benefits”?: Transitioning to a Better Retirement System

- Employers as conduits, not sponsors or fiduciaries
- Personal (automatically-portable) accounts
- Automatic, frictionless access to commodity products
- Back to the Future: (Partial) Annuities
- Consumer protection by government, not litigation





# Questions?

