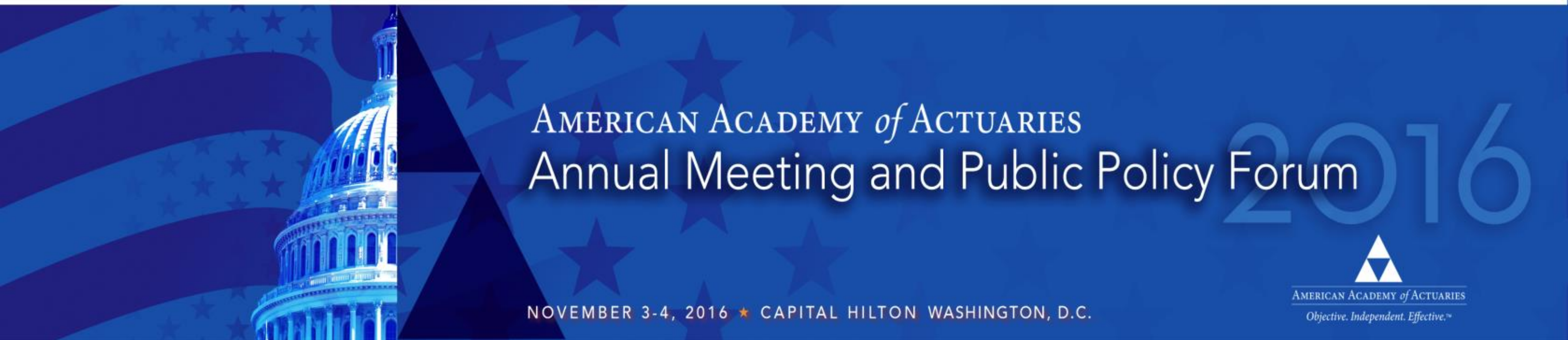
AMERICAN ACADEMY of ACTUARIES
Annual Meeting and Public Policy Forum
2016
NOVEMBER 3-4, 2016 ★ CAPITAL HILTON WASHINGTON, D.C.
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Fixing the Retirement Stool: Reinforce or Reinvent?

Speakers

- Ted Goldman (moderator)
  - Senior Pension Fellow, American Academy of Actuaries
- Steve Goss
  - Chief Actuary, Social Security Administration
- Megan Gerry
  - Vice President, Compensation and Benefits, Smithfield Foods
- John Scott
  - Director, Retirement Savings, The Pew Charitable Trusts

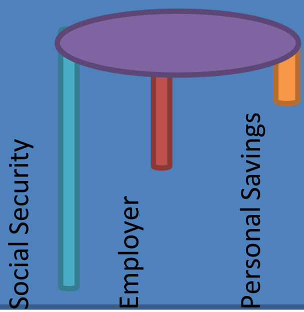
Retirement—Ready or Not?

- Interesting debate about the state of America's retirement readiness
  - Various studies indicate results between 50% and 90% readiness
- Traditional three-legged stool
  - Social Security
  - Employer-provided retirement benefits
  - Personal savings
- Speakers today are going to provide some insights as to the current state and future state of the U.S. retirement system

Possible Views

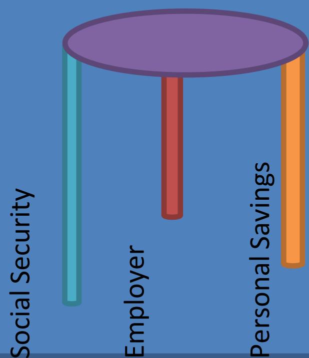
Lower earners

- Social Security – solid, some nicks, may become wobbly
- Employer – do-it-yourself or missing (fortified if DB)
- Personal Savings – too short hard to find parts



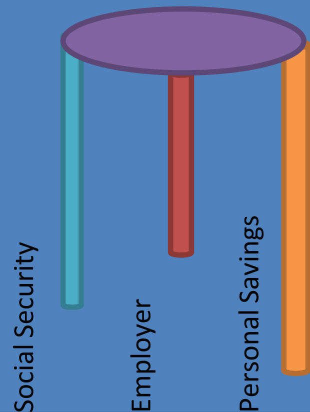
Middle Earners

- Social Security -- needs additional support, may become wobbly
- Employer – do-it-yourself or missing (fortified if DB)
- Personal Savings – necessary, wobbly without it



High Earners

- Social Security – short, may become wobbly
- Employer – do-it-yourself or missing (fortified if DB)
- Personal Savings – critical, help available (but many don't)



Social Security Actuarial Status
The Foundational Leg of the 3-Legged Stool

Reality and Perceptions About the Future

Steve Goss, Chief Actuary, Social Security Administration
American Academy of Actuaries Annual Meeting
November 3, 2016

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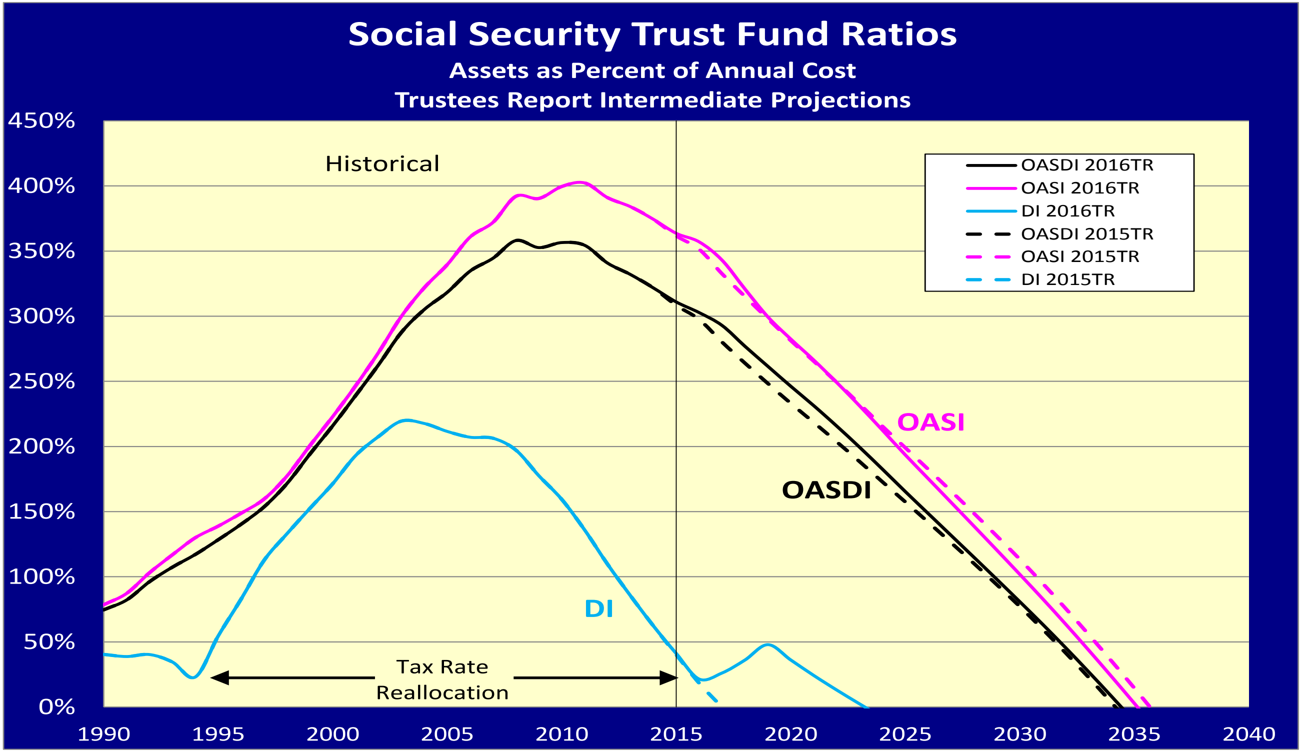
What Is the Legislative Mandate for the Annual Report?

1) Trust Fund operations of the past year and the next five years
2) Actuarial status of the trust funds
   - This means the ability to meet the cost of scheduled benefits with scheduled revenue and trust fund reserves
   - And the extent to which scheduled revenue will fall short, forcing cuts or delays in benefits in the absence of legislative change

SOLVENCY: OASDI Trust Fund Reserve Depletion 2034 (same as last year)

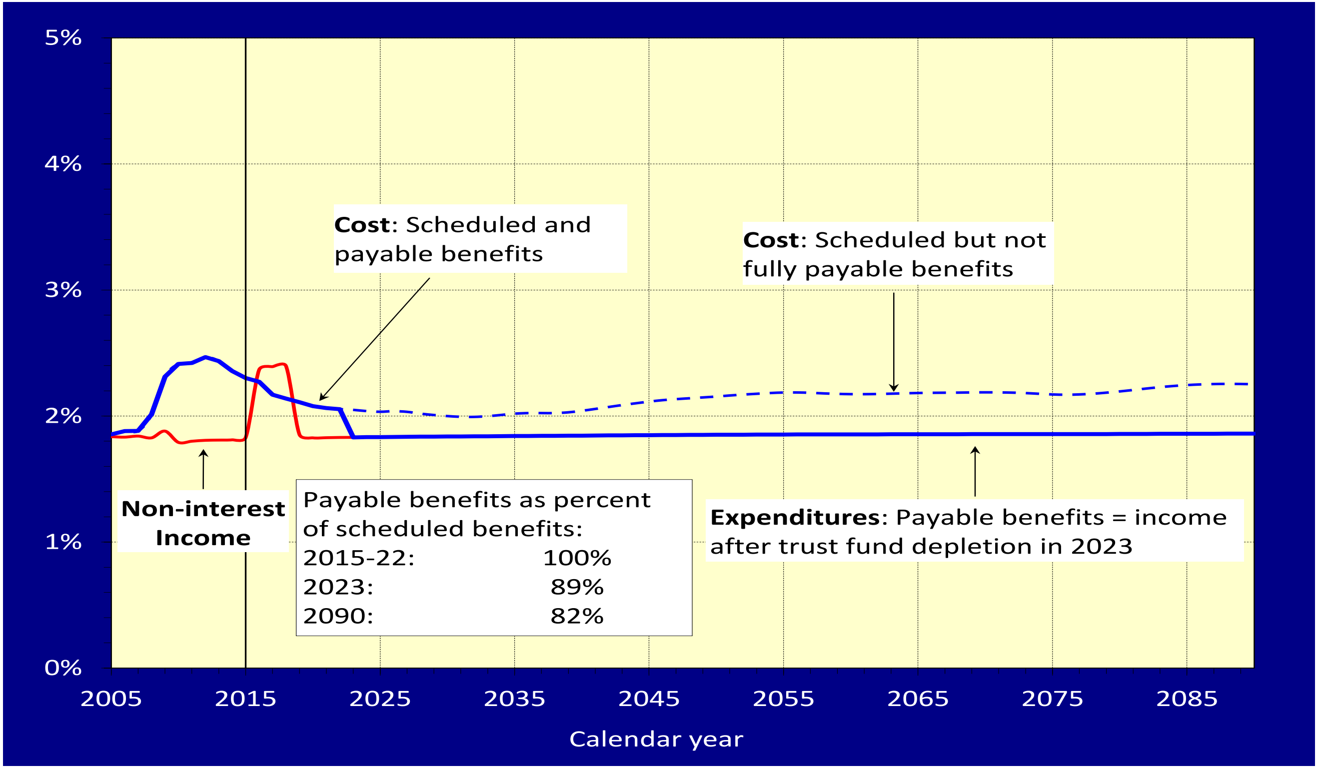
- Reserve depletion date varied from 2029 to 2042 in reports since 1995 (1995-2016)
- DI Trust Fund — reserve depletion in 2023, seven years later than last year
  - Change in depletion date due largely to the tax-rate reallocation enacted in the Bipartisan Budget Act of 2015



DI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

89% of scheduled benefits still payable at trust fund reserve depletion

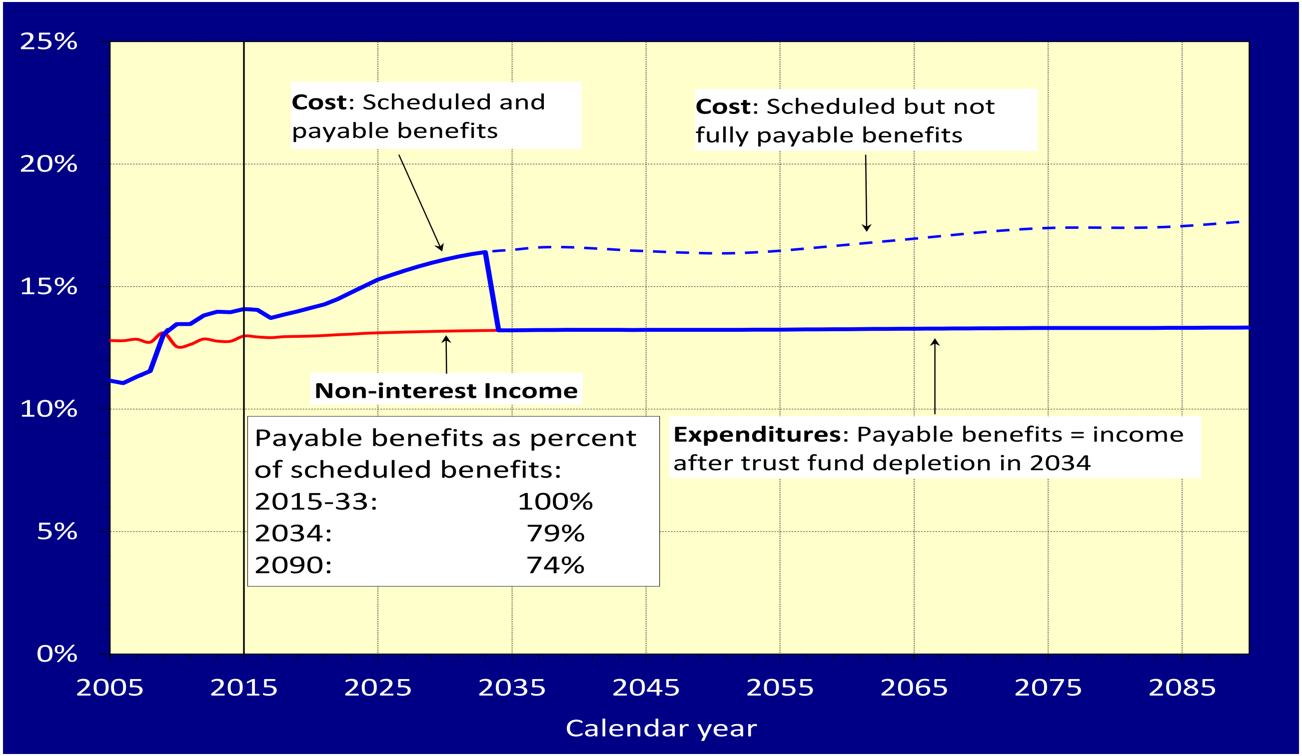
Annual deficit in 2090: 0.39 percent of payroll — 0.02 percent lower than last year



OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll
Persistent Negative Annual Cash-Flow Balance Starting in 2010

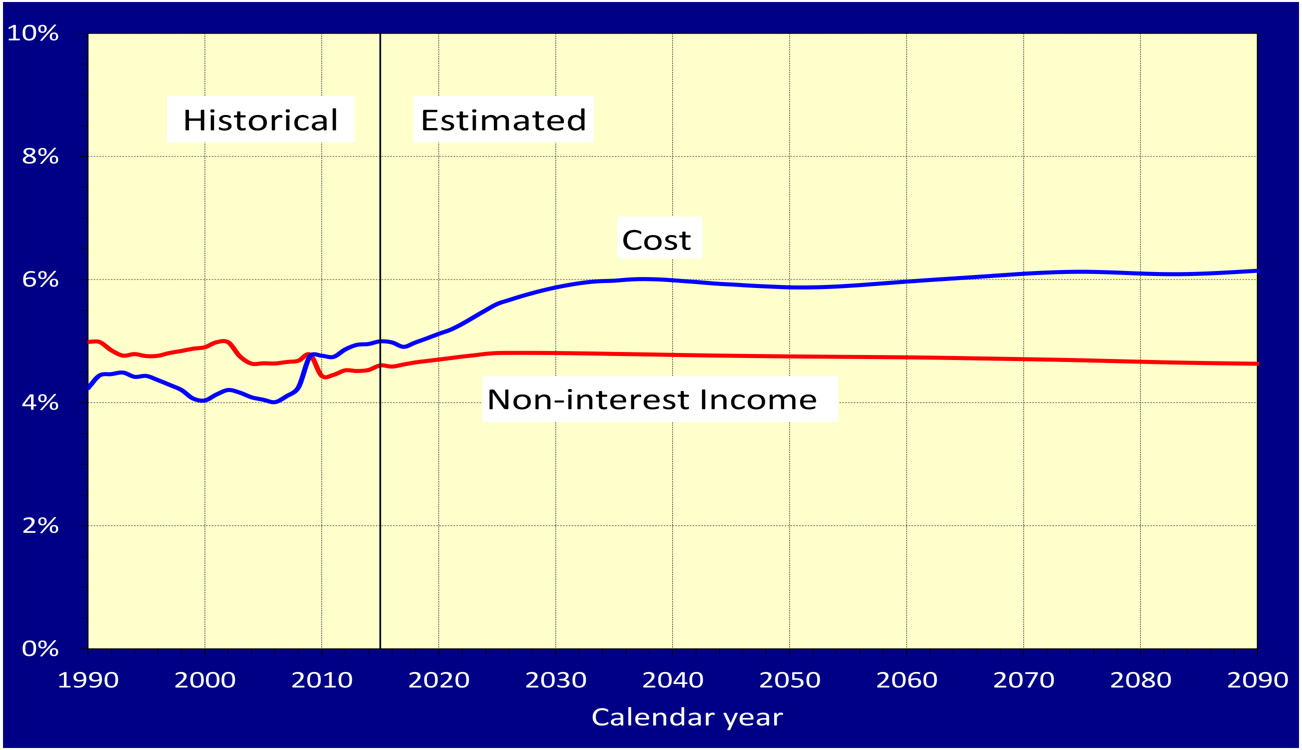
79% of scheduled benefits still payable at trust fund reserve depletion

Annual deficit in 2090: 4.35 percent of payroll — 0.35 percent lower than last year

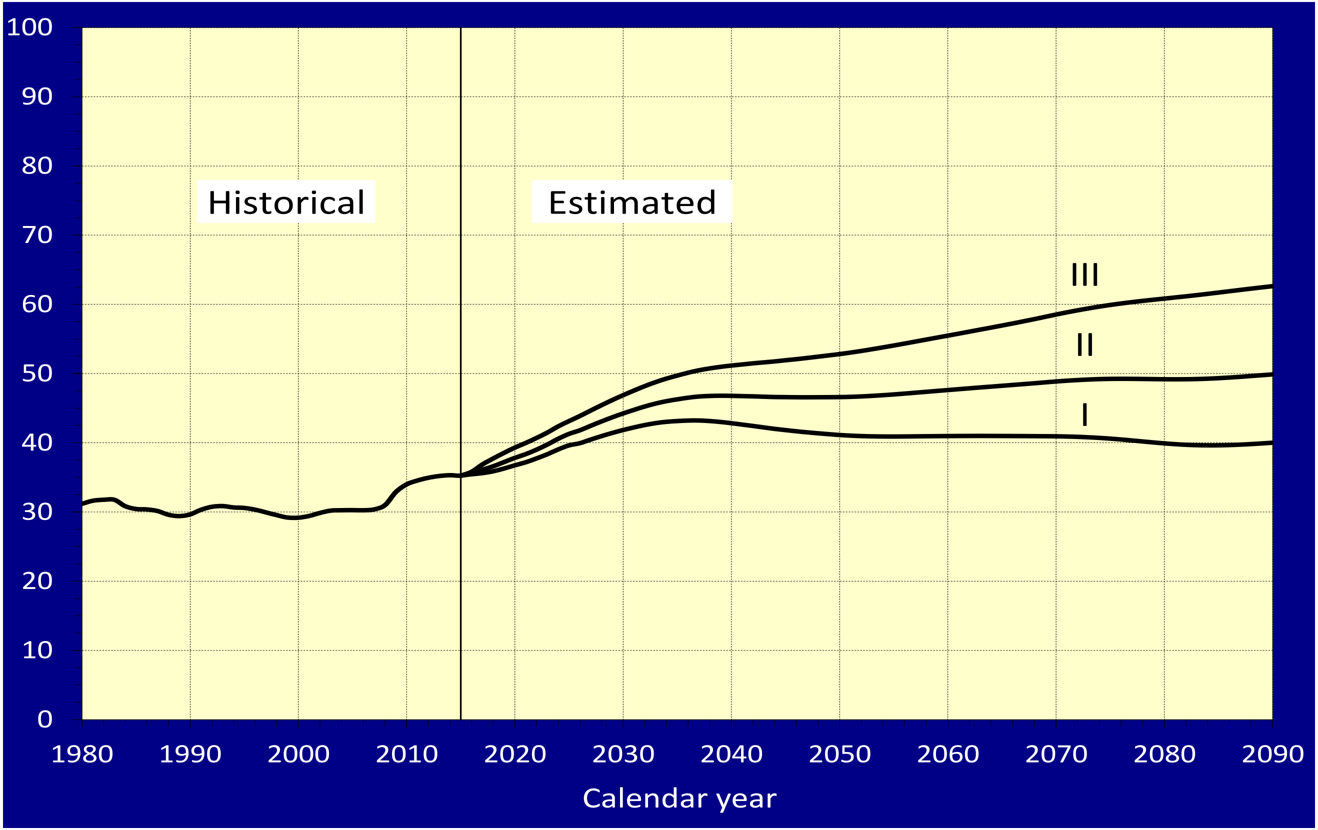


SUSTAINABILITY: Cost as Percent of GDP

Rises from a 4.2-percent average in 1990-2008, to about 6.0% by 2035, then drops to 5.9% in 2050 and generally increases to 6.1% in 2090

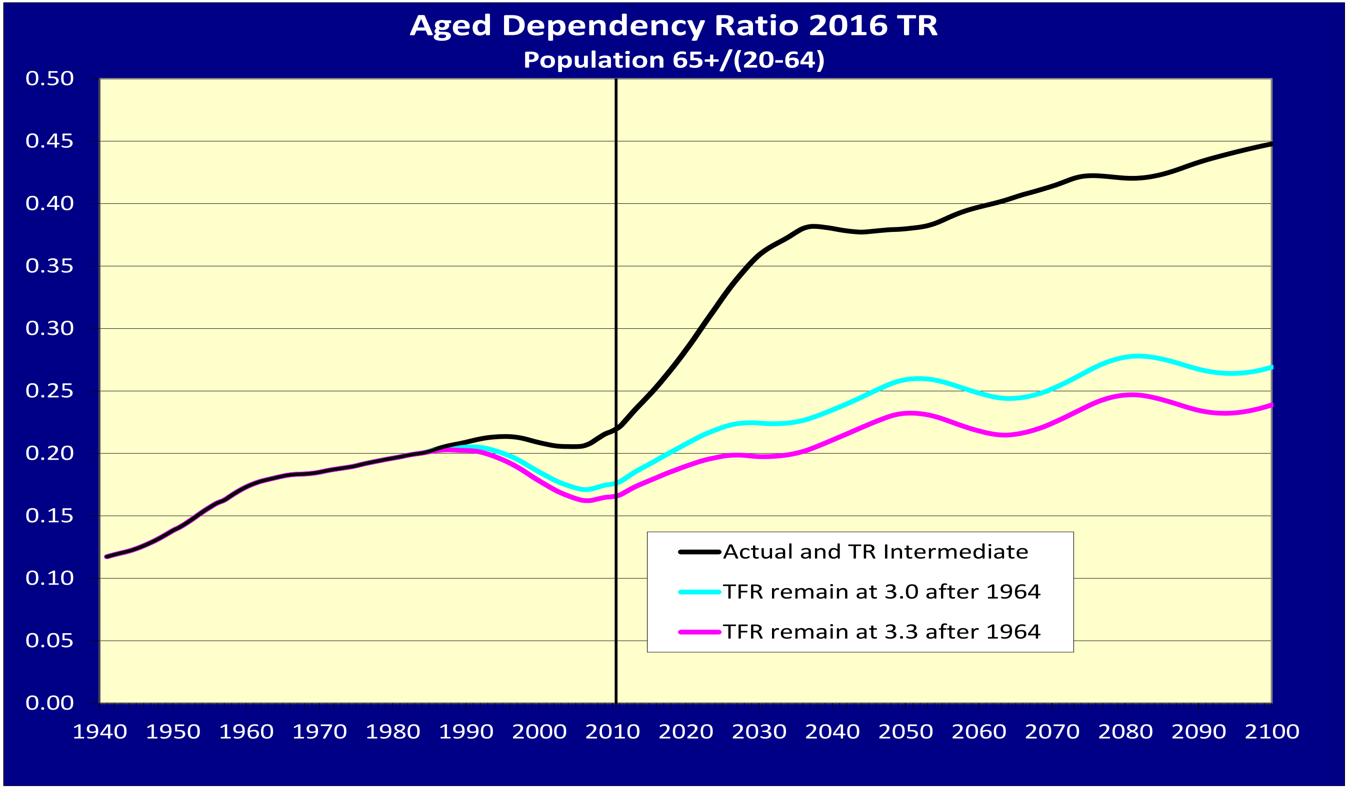


Following the Ratio of Beneficiaries per 100 Workers



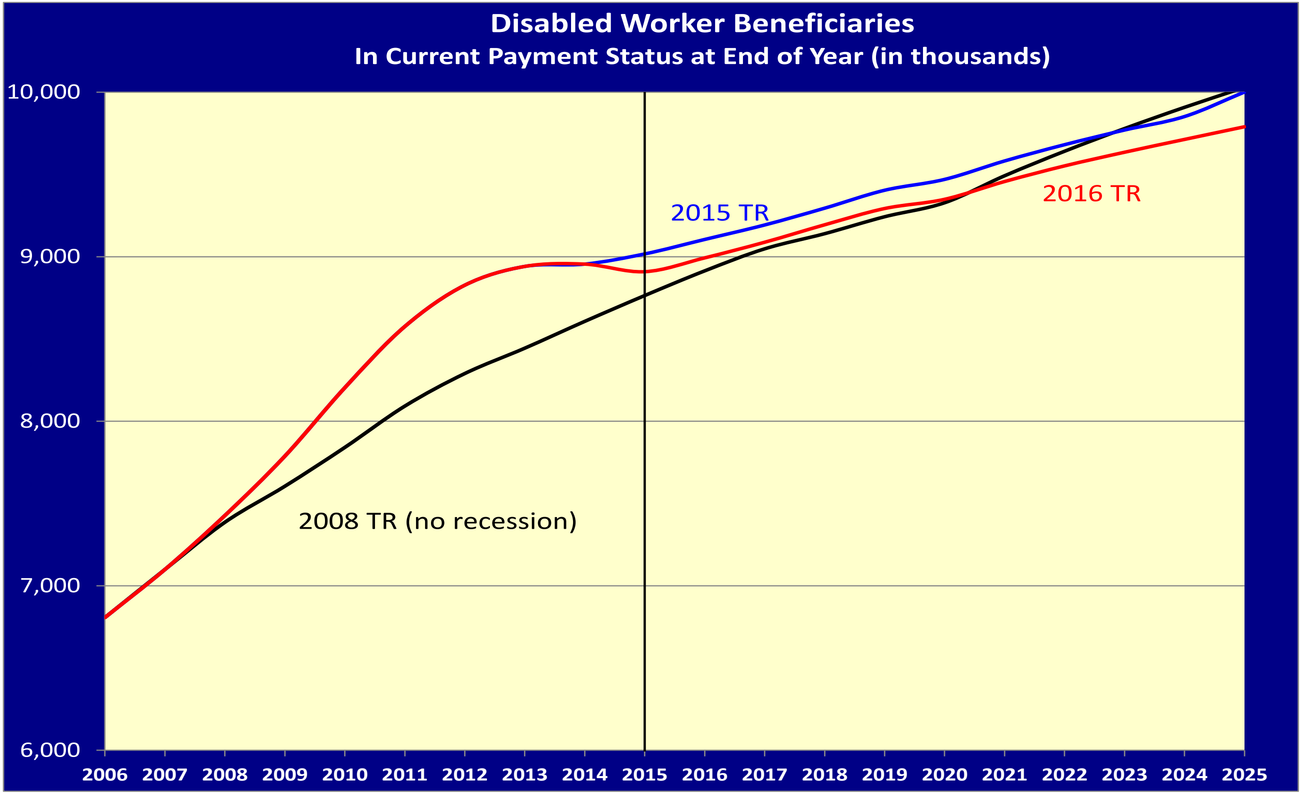
Aging (Change in Age Distribution)

Mainly due to drop in birth rates



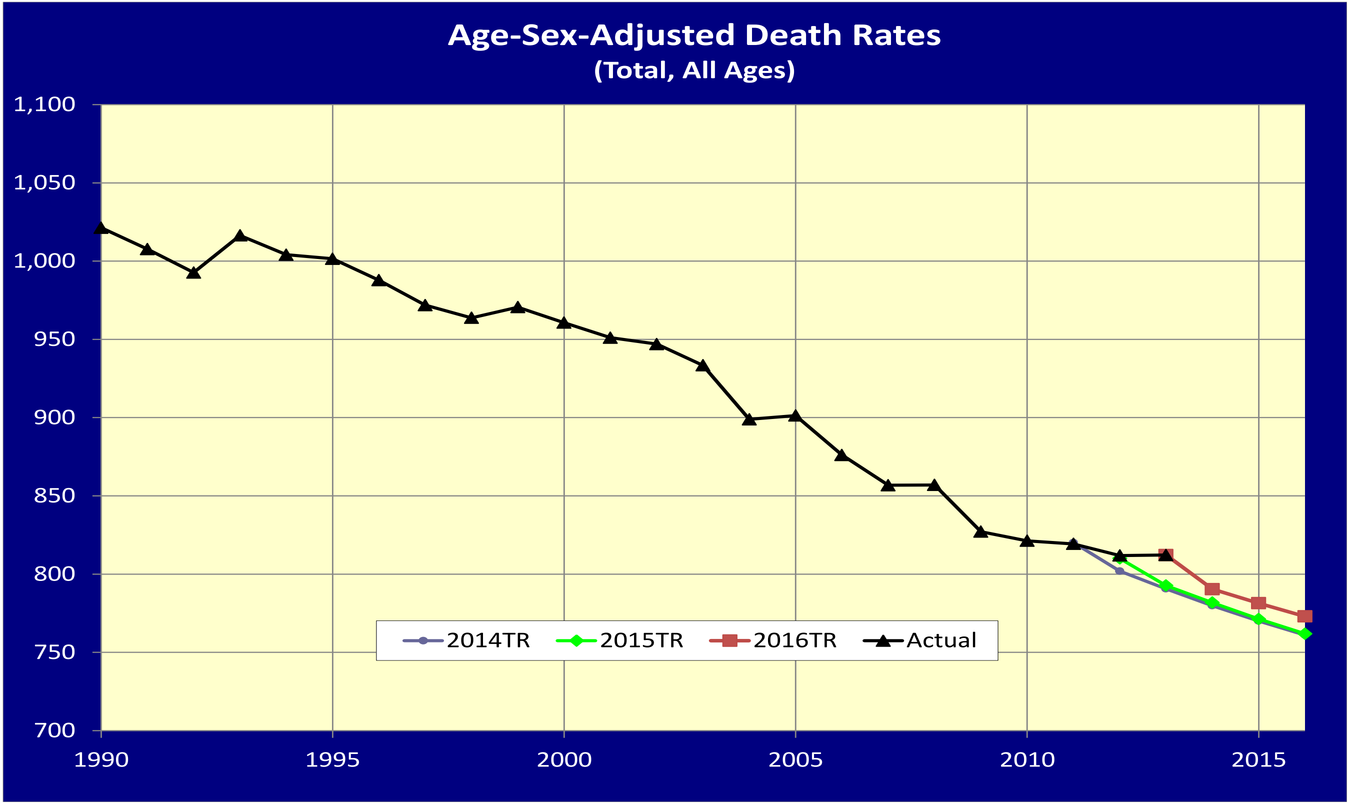
Slightly Fewer Disabled Worker Beneficiaries

Fewer now from recent experience, later based on effects of BBA of 2015



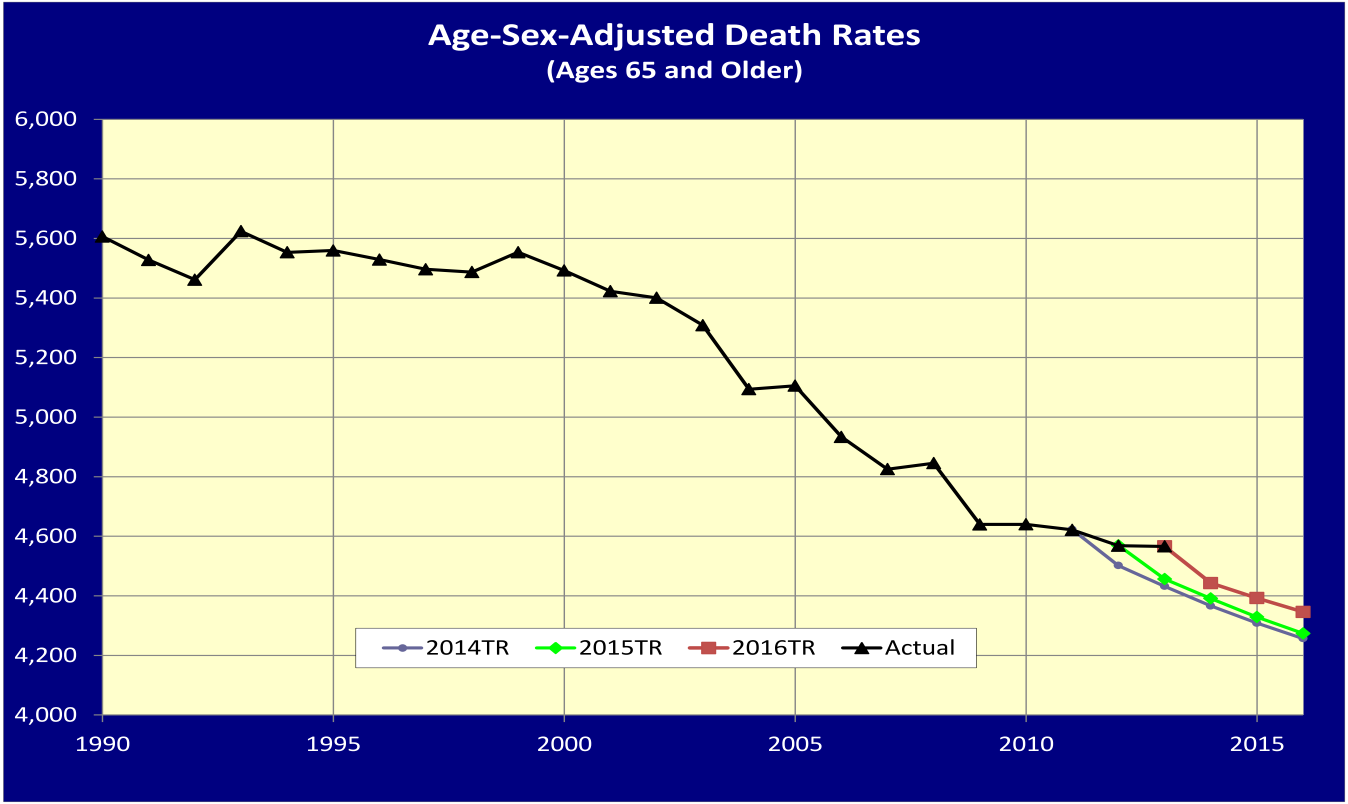
Mortality Experience

Comparison of recent data and near-term projections

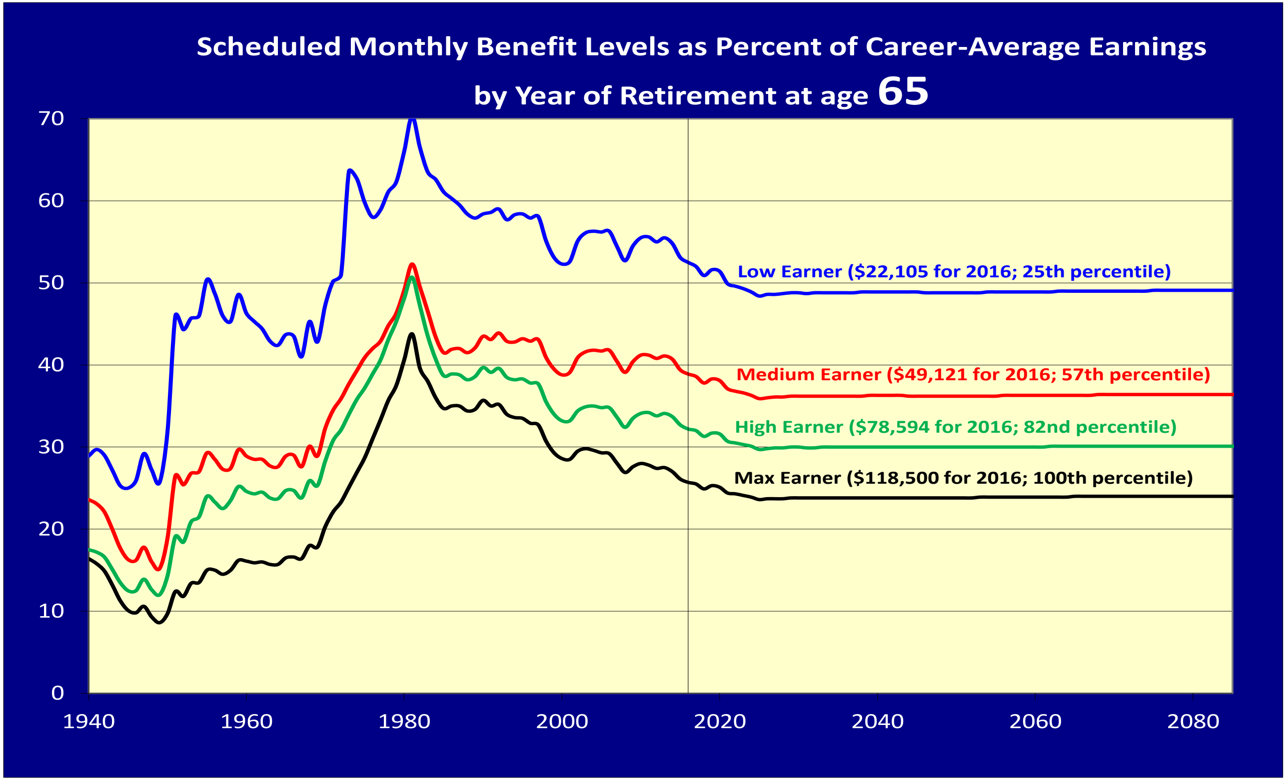


Mortality Experience

See also Actuarial Note 158: https://www.ssa.gov/oact/NOTES/pdf_notes/note158.pdf

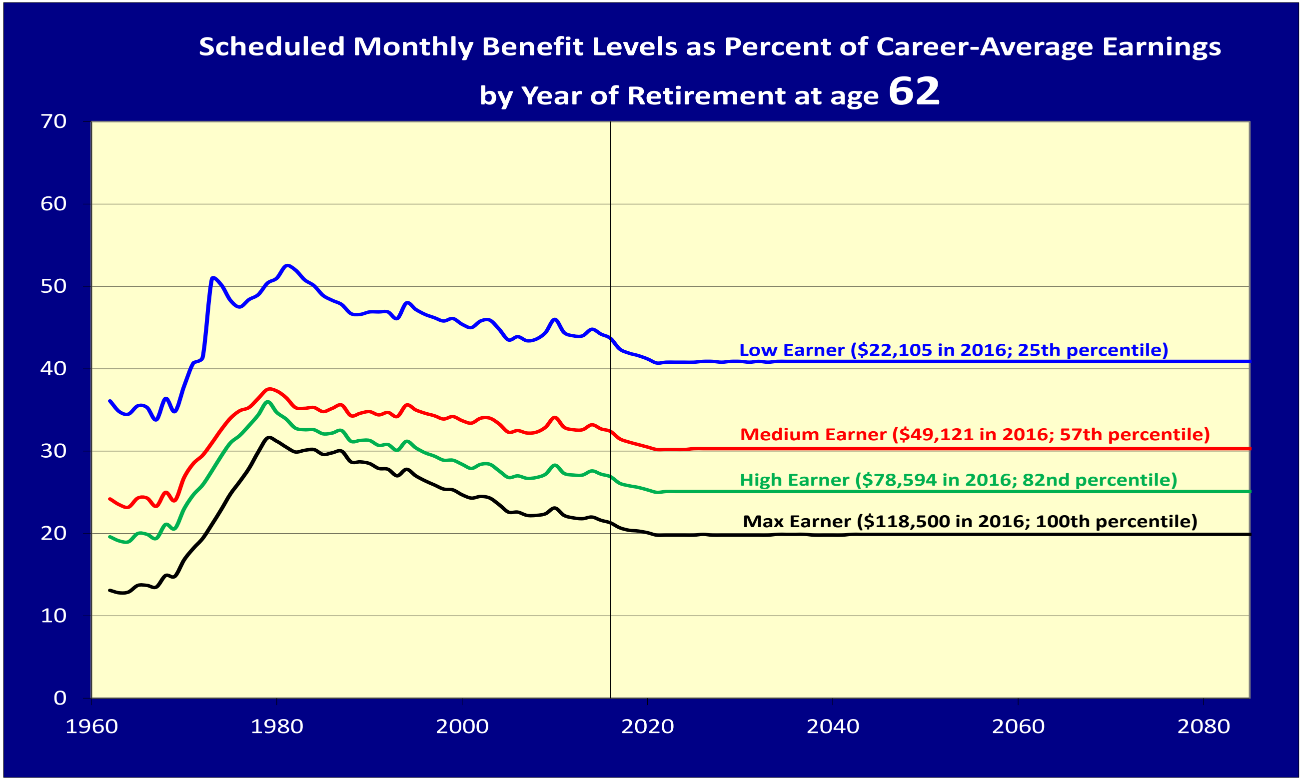


Replacement Rates Based on the 2016 TR



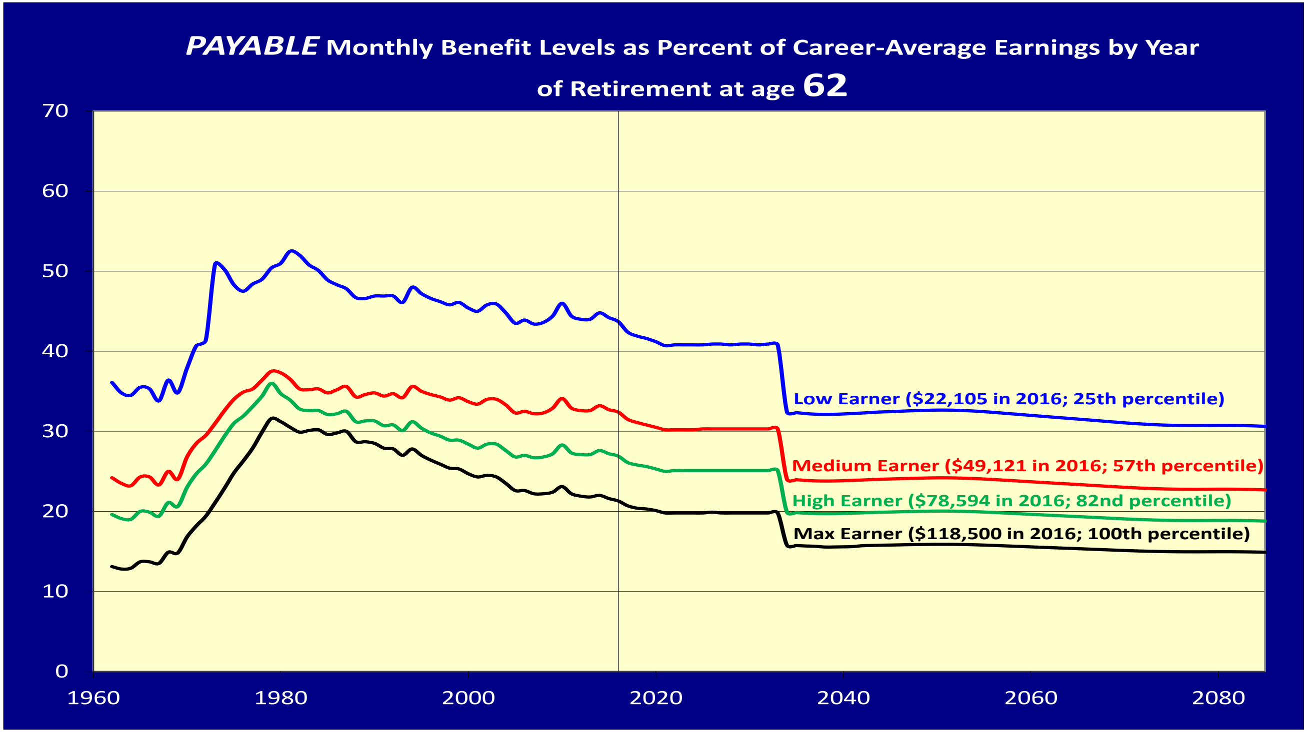
Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html

How About at Age 62, Where Most Start Benefits?



Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html

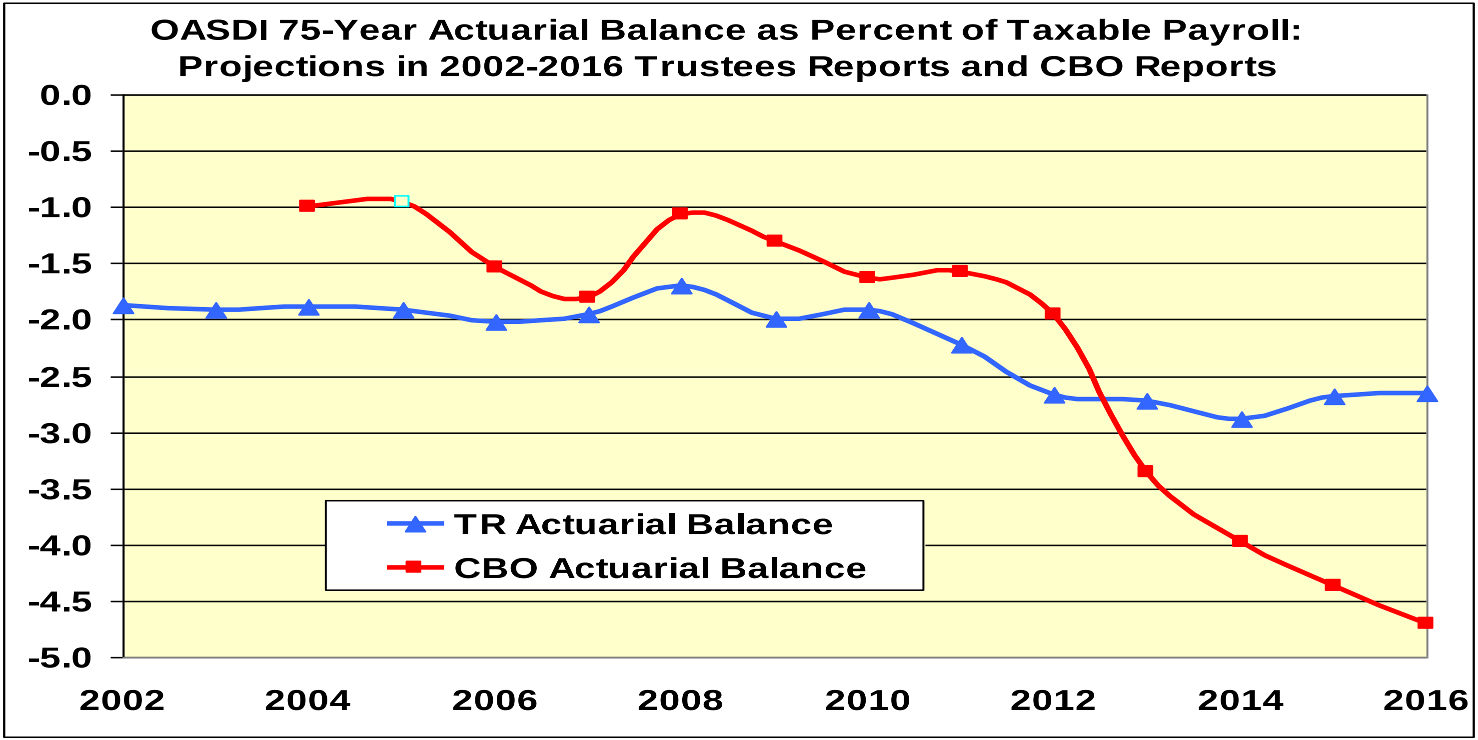
Payable Benefits Under the Law, After Trust Fund Reserves Are Depleted, Are Even Lower



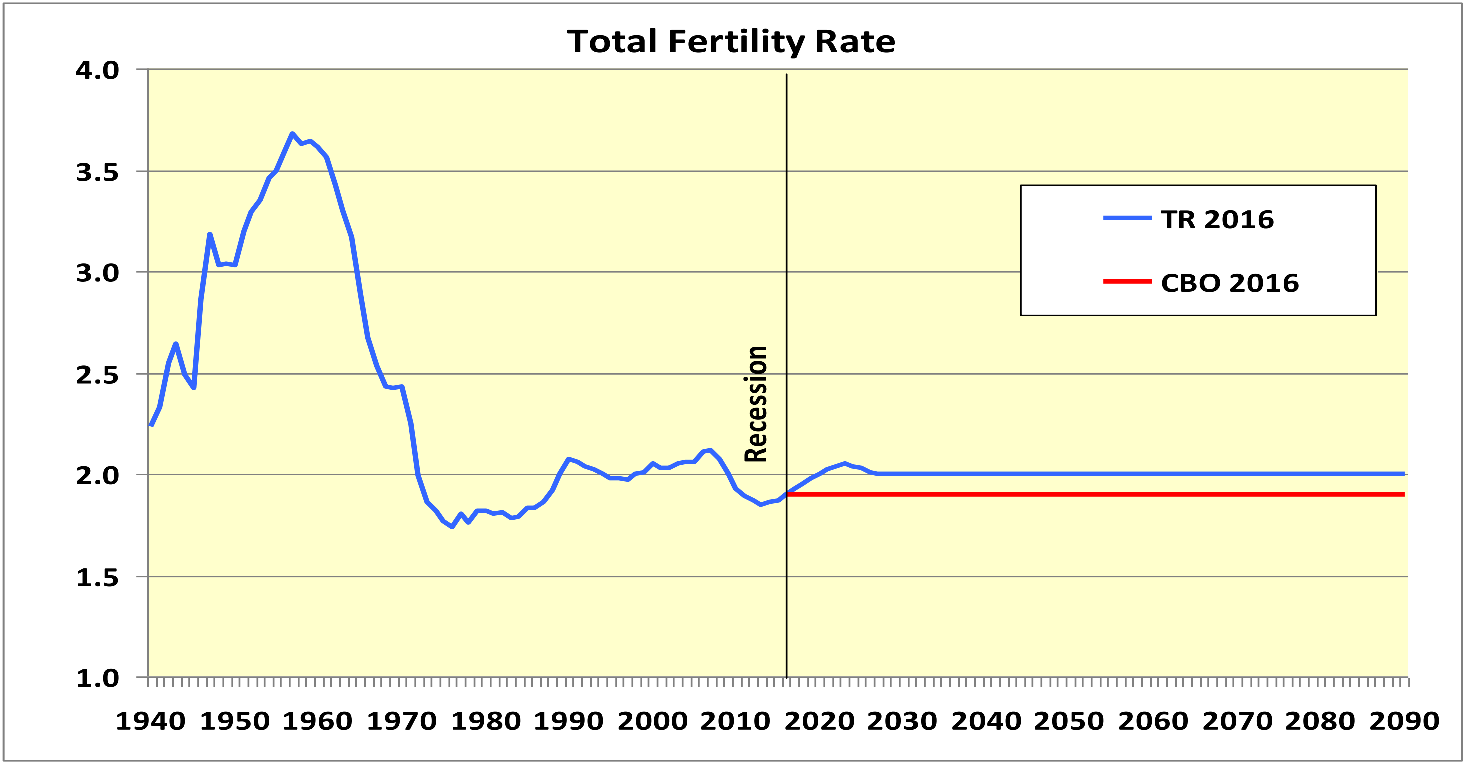
Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html

Reality Check: House Ways and Means Committee Hearing

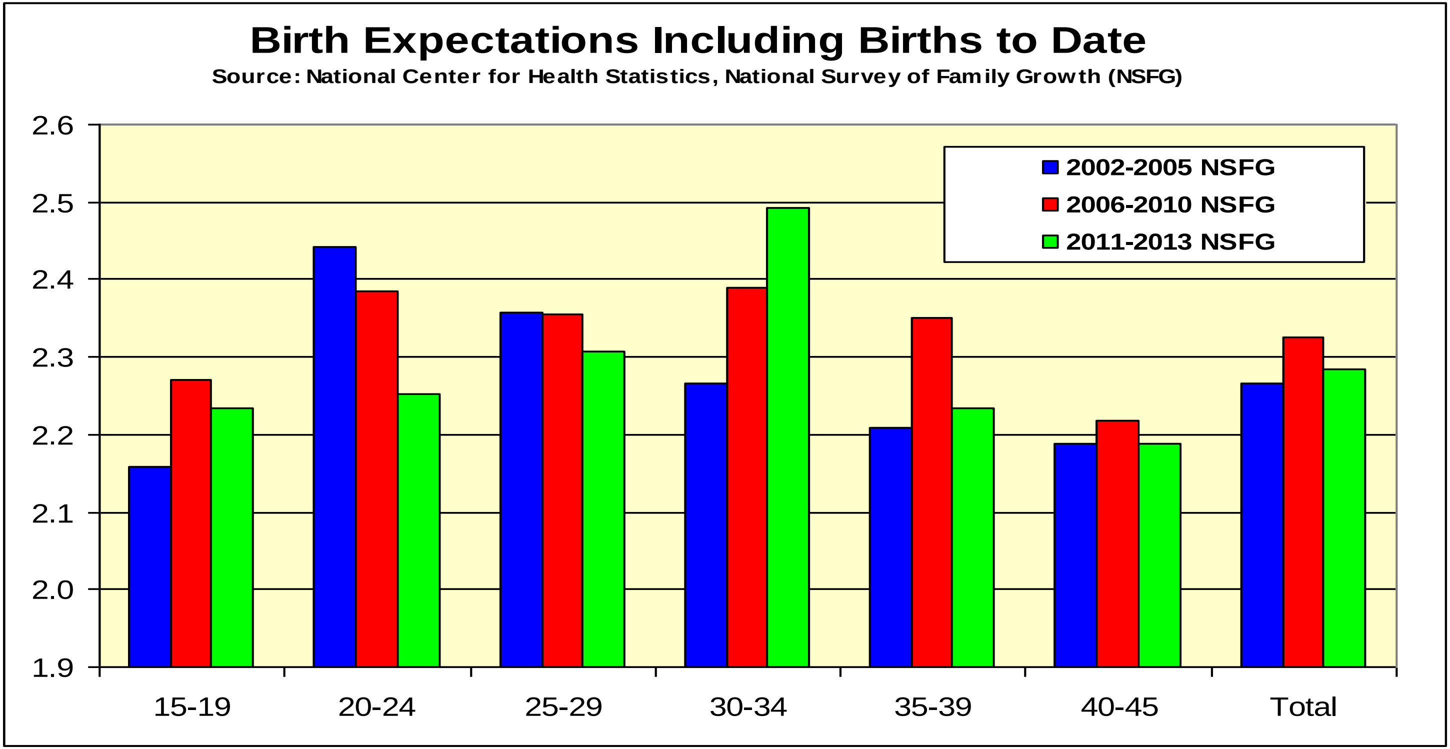
Comparing projections of actuarial status of OASDI Trustees Reports and Congressional Budget Office



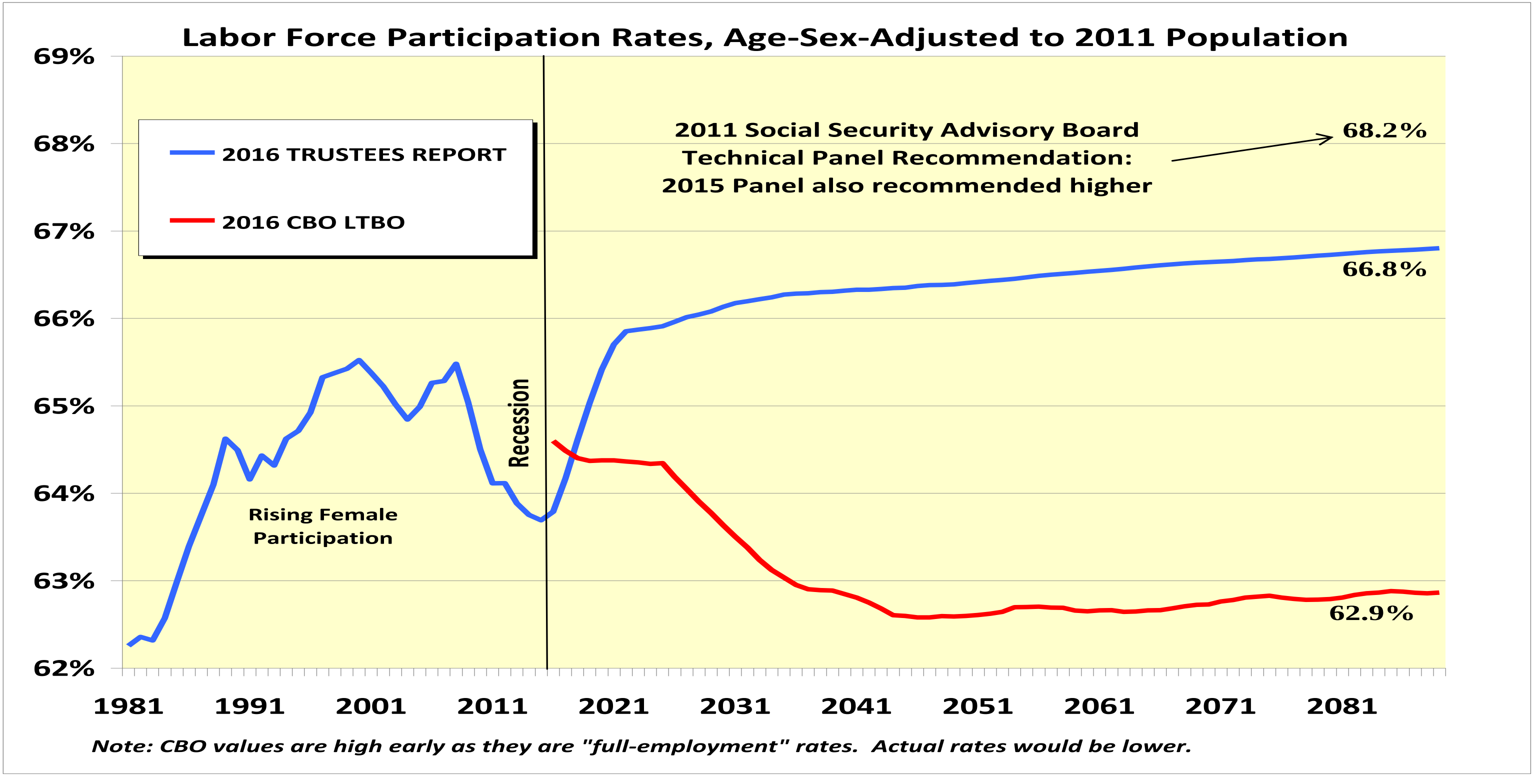
Birth rates: For 2016, CBO assumes the total fertility rate is permanently lower.



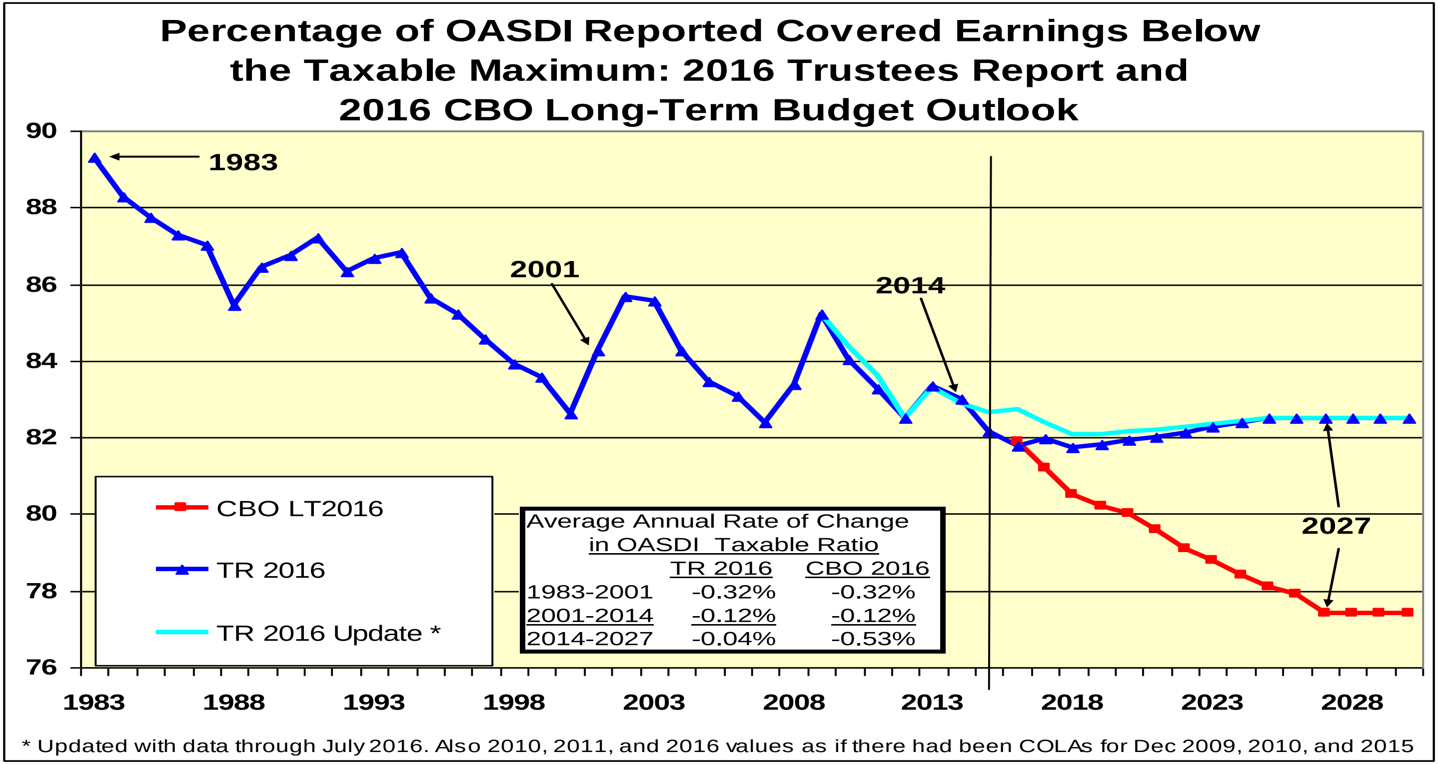
But NCHS surveys of expected births for women in 2002 through 2013 are consistently above 2.0.



Labor force participation: CBO never recovers, and goes much lower in the future.



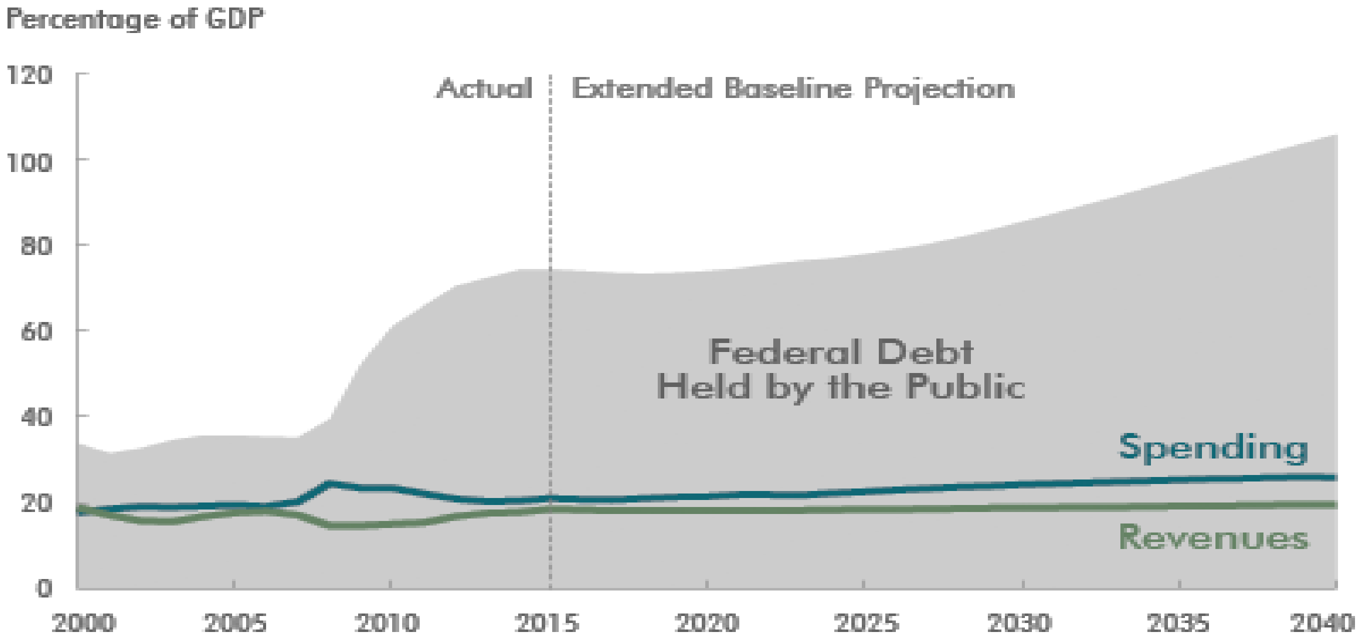
Earnings concentration at the top has decelerated since 2001. TR continues deceleration. But CBO assumes acceleration to nearly double the pace seen from 1983 to 2001.



But, Wait—How About Budget Scoring?

Don't entitlements just keep borrowing?

Debt Held by the Public, Total Spending, and Total Revenues



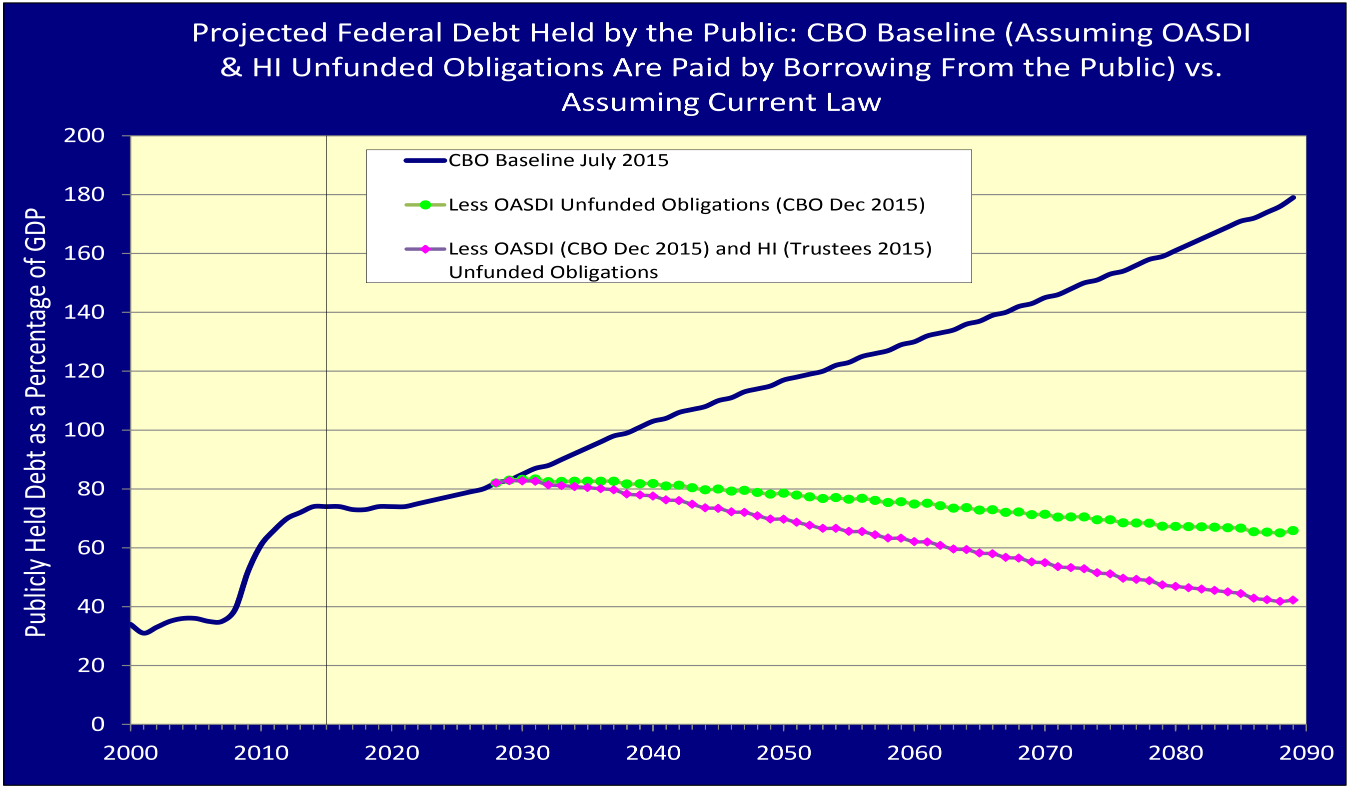
Source: Congressional Budget Office, June 2015

Actually, NO. Budget Scoring Is Inconsistent With the Law, and All Past Experience.

See actuarial opinion in the 2014-2016 TR:

1) After reserves deplete, $11.4 trillion unfunded obligation through 2090 cannot be paid under the law.
   - ***Budget deems these "expenditures" creating publicly held debt***
2) Reserve redemptions spend excess "earmarked" revenues invested in an earlier year.
   - ***Budget deems these "a draw on other Federal resources"***
3) Trust Fund operations have NO direct effect on total Federal debt subject to ceiling in any year—and no *net* effect on publicly held debt.
   - ***Budget says redemptions increase Federal debt held by the public and often gives no credit for reserve accumulation***

So—What If We Project Federal Debt Consistent With the Law?



The Bottom Line

- Long-term projections provide information to address solvency
- If trust fund reserves were to deplete:
  – Full benefits cannot be paid timely
  – NO pressure on the budget or federal debt
  – So Congress must and WILL act, as always
- Straightforward solutions:
  – Add revenue and/or lower cost for OASDI
    - Comprehensive changes ***implemented*** by 2034

How to Fix Social Security Long-Term

- **First:** Help DI by 2023—*reallocate tax rate again?*
- **Second:** make choices addressing OASDI deficits 2034-2090
  - – Raise scheduled revenue after 2033 by about 33%: increase revenue from 4.6 to 6.1% of GDP
  - – Reduce scheduled benefits after 2033 by about 25%: lower benefits from 6.1 to 4.6% of GDP
  - – Or some combination of the two
  - – Invest trust funds for higher return?
    - Limited help—it is a PAYGO world
    - So invest in coming generations of workers

Ways to Lower Cost

- Lower benefits for retirees—not disabled?
  - Increase normal retirement age (lowers OASDI cost, but increases DI cost)
  - Can exempt long-career low earners
- Lower benefits mainly for high earners?
  - Reduce PIA above some level
  - Often combined with increasing PIA below some level, subject to work year requirements
- Lower benefits mainly for the oldest old?
  - Reduce the COLA
  - Some say increase it with the CPI-E (based on purchases of consumers over age 62

Ways to Increase Revenue

- Raise tax on highest earners?
  - Increase taxable maximum amount
  - Some tax on all earnings above the maximum

- Tax employer group health insurance premiums?
  - Affects only middle class if taxable maximum remains

- Maintain larger trust fund reserves?
  - Added interest can lower needed taxes

For More Information Go To http://www.ssa.gov/oact/

There you will find:

- The 2016 and all prior OASDI Trustees Reports
- Detailed single-year tables for recent reports
- Our estimates for comprehensive proposals
- Our estimates for the individual provisions
- Actuarial notes; including replacement rates
- Actuarial studies; including stochastic
- Extensive databases
- Congressional testimonies

Fixing the Retirement Stool: The Employer Perspective

Megan Gerry, Vice President of Compensation and Benefits
Smithfield Foods

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Smithfield Foods

- We are a leading consumer packaged meats company with sales in excess of $14 billion
- We are the world's largest pork processor and hog producer committed to providing good food responsibly through
  - Robust animal care
  - Community involvement
  - Employee and food safety
  - Quality programs

Smithfield. Good food. Responsibly.®

50,000
Employees across the company

3,800
Customers around the world

$14.4 Billion
Companywide sales in 2015

38 North America Plan Operations

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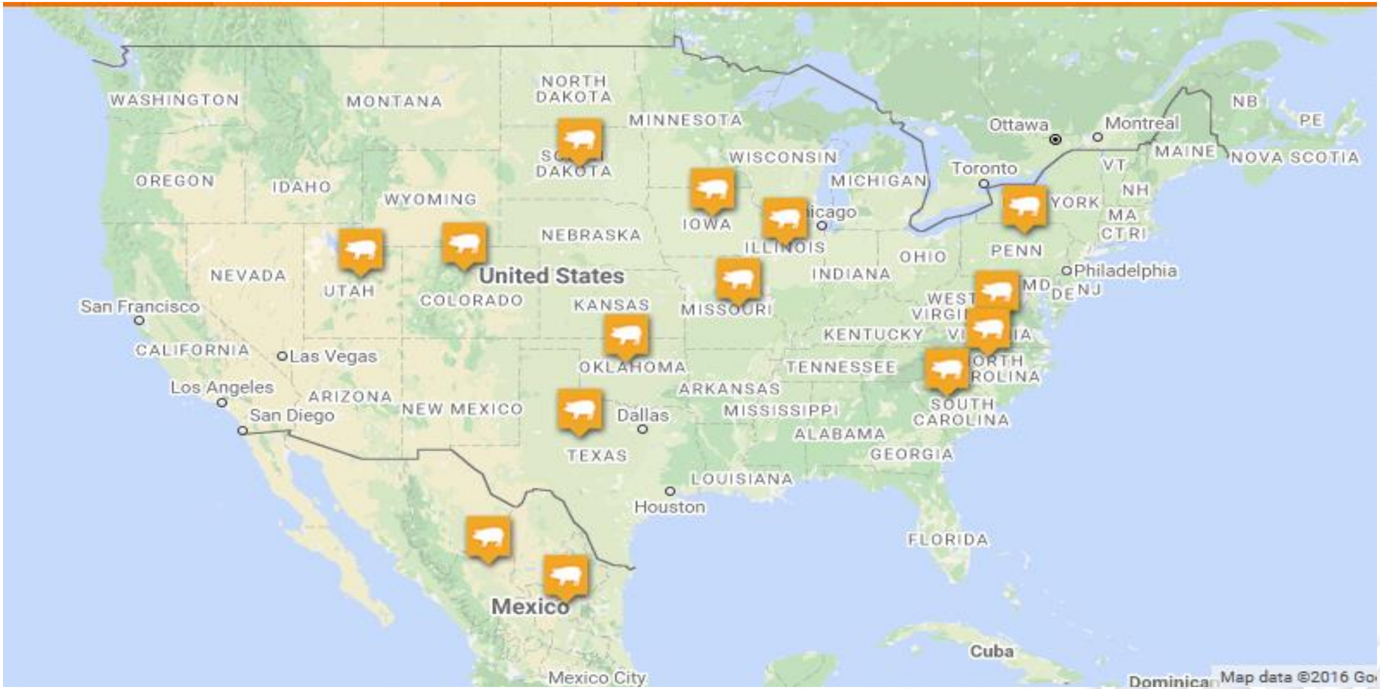
14 North America Hog Production Operations



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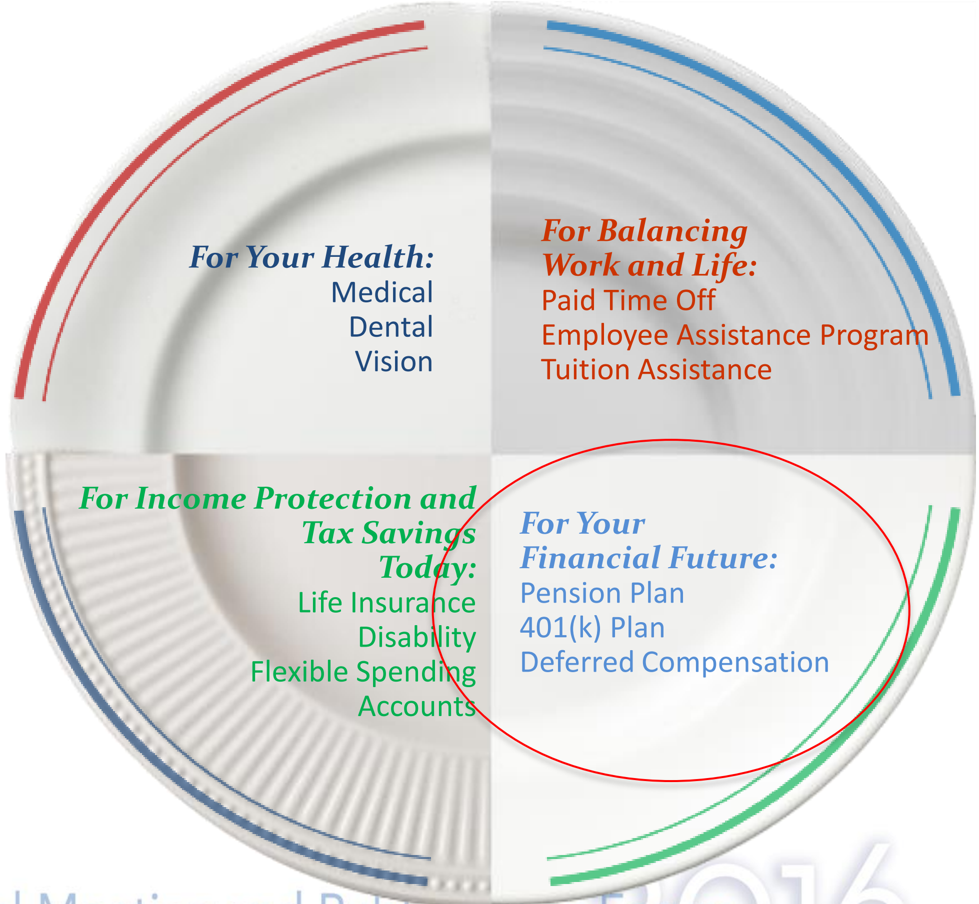
Serious About Benefits



A Paternalist Philosophy Toward Retirement

- Preparing our employees for retirement through valuable plans that complement one another for the different needs of our employees
- Value proposition of offering both pension and 401(k) plans
- Committed to our active pension plans
  - $200M in company contributions in 2015 and $225M in 2016
- Actions have started shifting toward a focus of retirement readiness

Industry Data

PLAN DESIGN AND FEATURES	SMALL PLAN ($5M-$50M)	MID PLAN (>$50M-$200M)	**LARGE PLAN (>$200M -$1B)**	MEGA PLAN (>$1B)	ALL RESPONDENTS
What types of plans are offered?					
401(k) plan	87.5%	80.4%	79.2%	84.3%	87.0%
NQDC plan	5.2%	14.9%	30.7%	39.0%	9.8%
DB plan (all types)	18.6%	33.4%	61.0%	89.8%	28.3%
Plan features					
Auto-enrollment	42.3%	55.4%	61.9%	65.2%	40.0%
Auto-escalation*	25.6%	35.9%	43.2%	52.1%	25.5%
Target date funds offered	71.3%	76.5%	81.7%	86.3%	69.8%
Managed Accounts offered*	32.7%	32.5%	39.3%	48.8%	35.6%
Roth offered*	56.6%	54.3%	54.7%	65.8%	54.6%
Overall expense ratio of investments					
(0.25-0.50%)	12.7%	21.0%	32.3%	39.5%	16.7%
(0.51-0.75%)	14.6%	28.5%	29.5%	15.5%	15.7%
Average # investment options per part	5.3	5.0	4.6	4.0	5.1

*** Plan design areas of opportunity for Smithfield**

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Source: AI Research Plan Sponsor 2015 Industry Report

EMPOWER RETIREMENT

Domestic Retirement Plans

- 3 Qualified Active Defined Benefit plans
- 1 Qualified Frozen Defined Benefit plan
- 3 Qualified 401(k) plans
- 7 Multi-employer Plans
- 1 Non-Qualified deferred compensation plan

Participants Counts by Employee Category			
	Pension and 401(k)	**401(k) Only**	**Totals**
Salaried	5,313	0	**5,313**
Hourly Non-Bargained	10,089	3,945	**14,034**
Hourly Bargained	9,056	6,927	**15,983**
Totals	**24,458**	**10,872**	**35,330**

2016 Funded Status

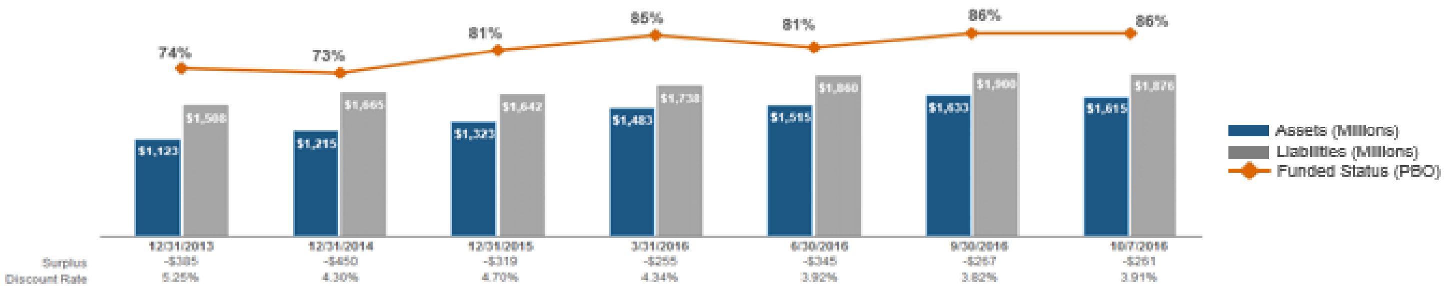
Plan Name	Actuarial Asset Value (AVA)[a]	Credit Balance at Beginning of Year	Net Assets	Funding Target Liability	*Funded Ratio*
Smithfield Foods Hourly	142,562,116	16,872,500	125,689,616	115,008,715	109.28%
Smithfield Foods Salaried	567,464,692	32,696,400	534,768,292	454,939,501	117.54%
John Morrell & Co. Hourly	70,598,990	0	70,598,990	59,560,588	118.53%
Farmland Foods, Inc.	813,901,573	29,943,405	783,958,168	658,966,786	118.96%
TOTAL	**1,594,527,371**	**79,512,305**	**1,515,015,066**	**1,288,475,590**	**117.58%**

2016 Participant Counts

Plan Name	Active	Terminated Vested	Retirees	Total
Smithfield Foods Hourly	9,686	1,530	2,032	13,248
Smithfield Foods Salaried	7,350	2,305	3,214	12,869
John Morrell & Co. Hourly	183	185	2,867	3,235
Farmland Foods, Inc.	4,980	3,267	5,641	13,888
TOTAL	**22,199**	**7,287**	**13,754**	**43,240**

Smithfield Foods Master Trust

Weekly update ending 10/7/2016*



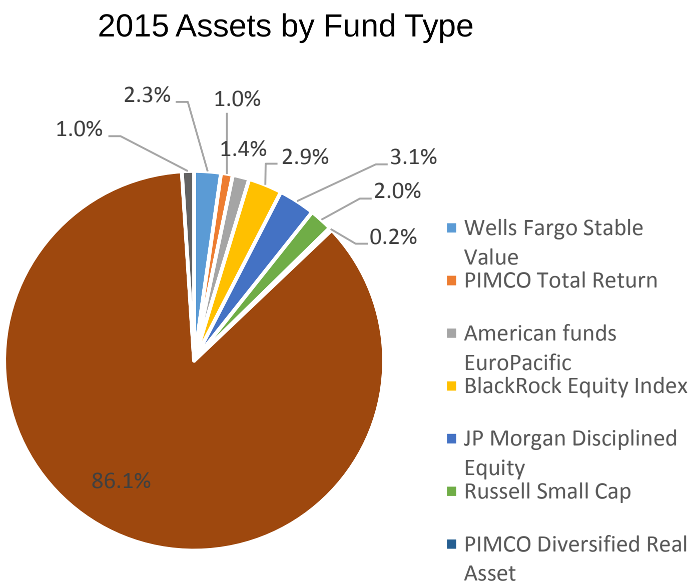
401(k) Statistical Summary and Benchmarking Smithfield Foods

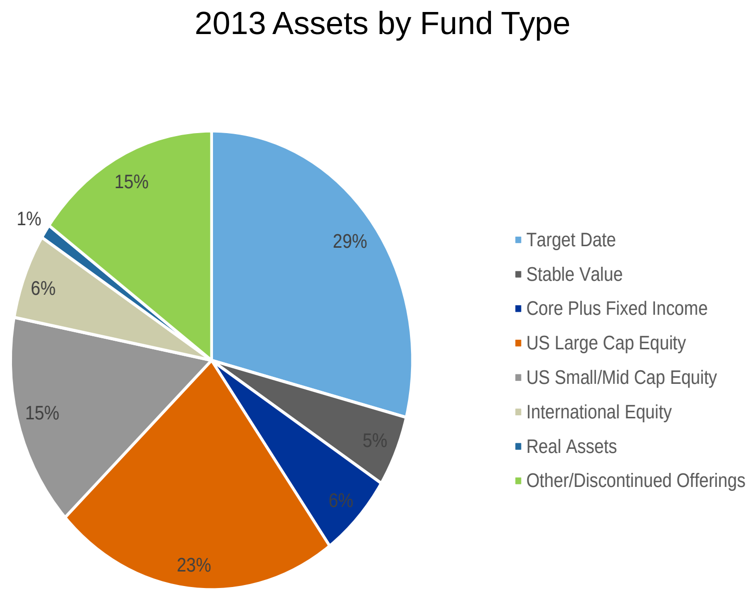
SAVING	YOUR PLANs	RETIREMENT INDUSTRY	EMPOWER	FOOD INDUSTRY
Overall participation rate	66.7%	77.2%[1]	75.3%	60.9%
SAVING ENOUGH				
Average participant balance	$19,884	$84,166[1]	$81,089	$29,326
Average participant pretax deferral	4.8%	6.5%[2]	7.5%	7.6%

Smithfield Foods Initiatives

- Evaluated and revamped the 401(k) investment lineup
- Constructed a LDI strategy for the pension master trust
- Term Vested Cashout 2014
  - Approximately 54% of the population elected lump sums of $139 million out of the $257M lump sums offered
  - $34 million net balance sheet improvement as of 12/31/2014
- Participant re-enrollment into the 401(k) target date funds

Target date fund re-enrollment results





Rationale for re-enrollment:

- Up to 80% of 401(k) participants self-identify as "Do it for me" investors – 87% of assets are currently in target date funds
- Participants were originally defaulted into non-diversified portfolios, such as stable value
- Target date funds represent more diversified portfolios, with more appropriate asset allocation based on age
- Re-enrollment is protected by safe-harbors in the QDIA regulations

Challenges facing Smithfield Foods

- Increased expenses and risk for administering retirement plans
  - Litigation exposure
  - Increase fiduciary responsibility
- Succession planning
  - Retirement ready
- Changing employee demographics
  - What is important to employees

Fixing the Retirement Stool: Reinforce or Reinvent? Employees

John Scott
Director, Retirement Savings, The Pew Charitable Trusts

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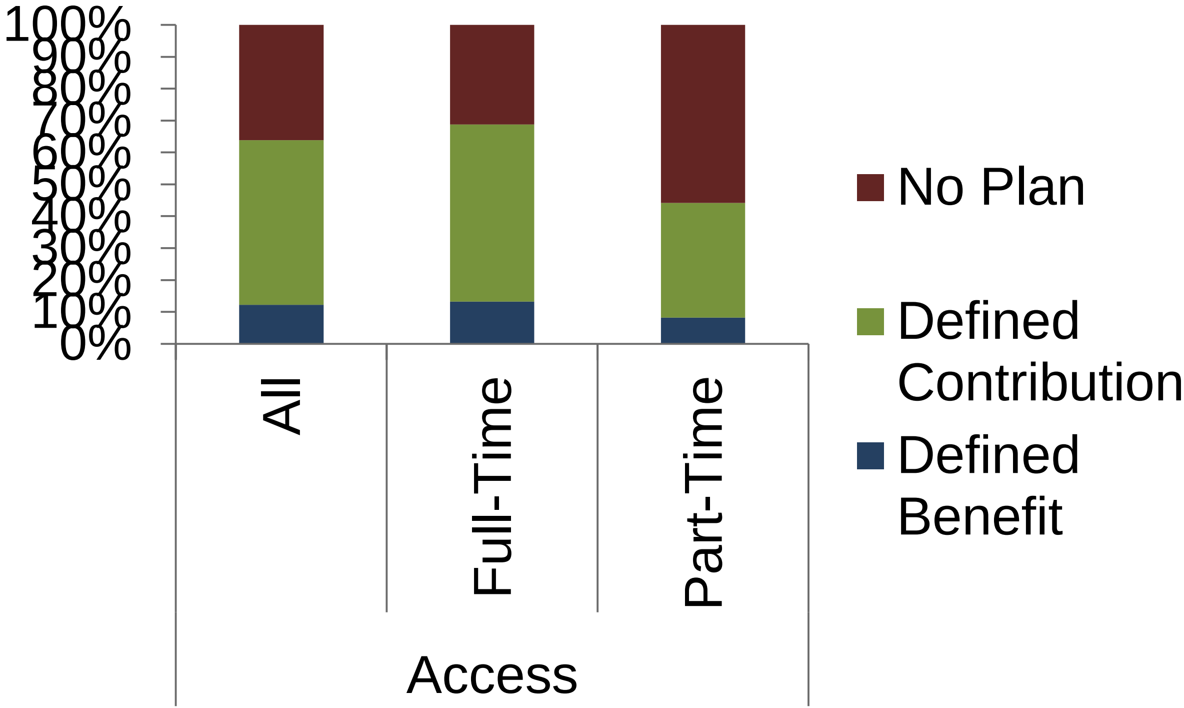
Introduction

- DC system: savings not security
- Savings are low
- What are the barriers facing workers?
  - Caveat: focus on coverage, not adequacy
- Policy responses
- Employee reactions

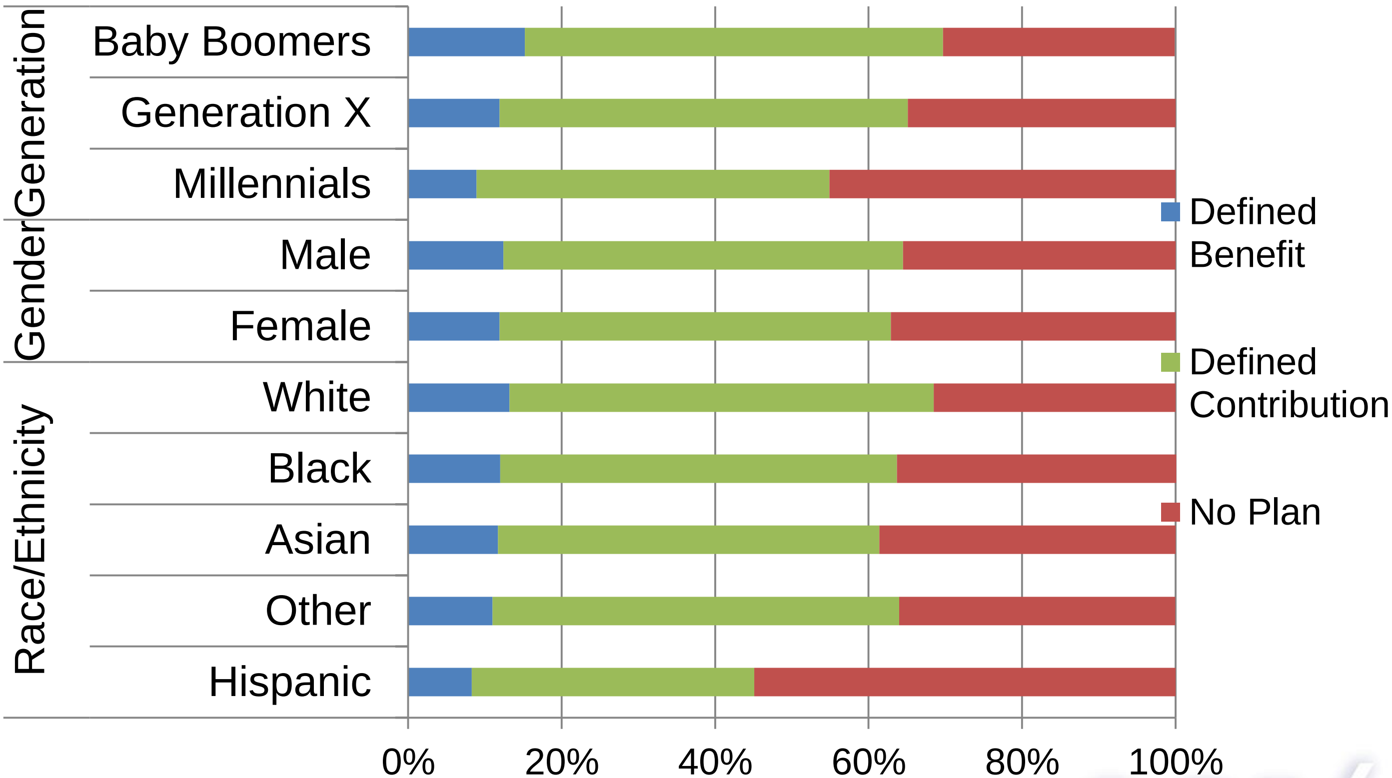
Data on Barriers

- Survey of Income and Program Participation, Wave 11 topical module of 2008 Panel (2012)
- Nationally representative sample of workers (*n* = 23,166)
- "Workers"
  - 18 to 64-year-old
  - Private sector
  - Full-time and part-time employees
  - Who were not self-employed, agricultural workers, or in the armed forces

Access to Employer Sponsored Plans



Who Has Access?



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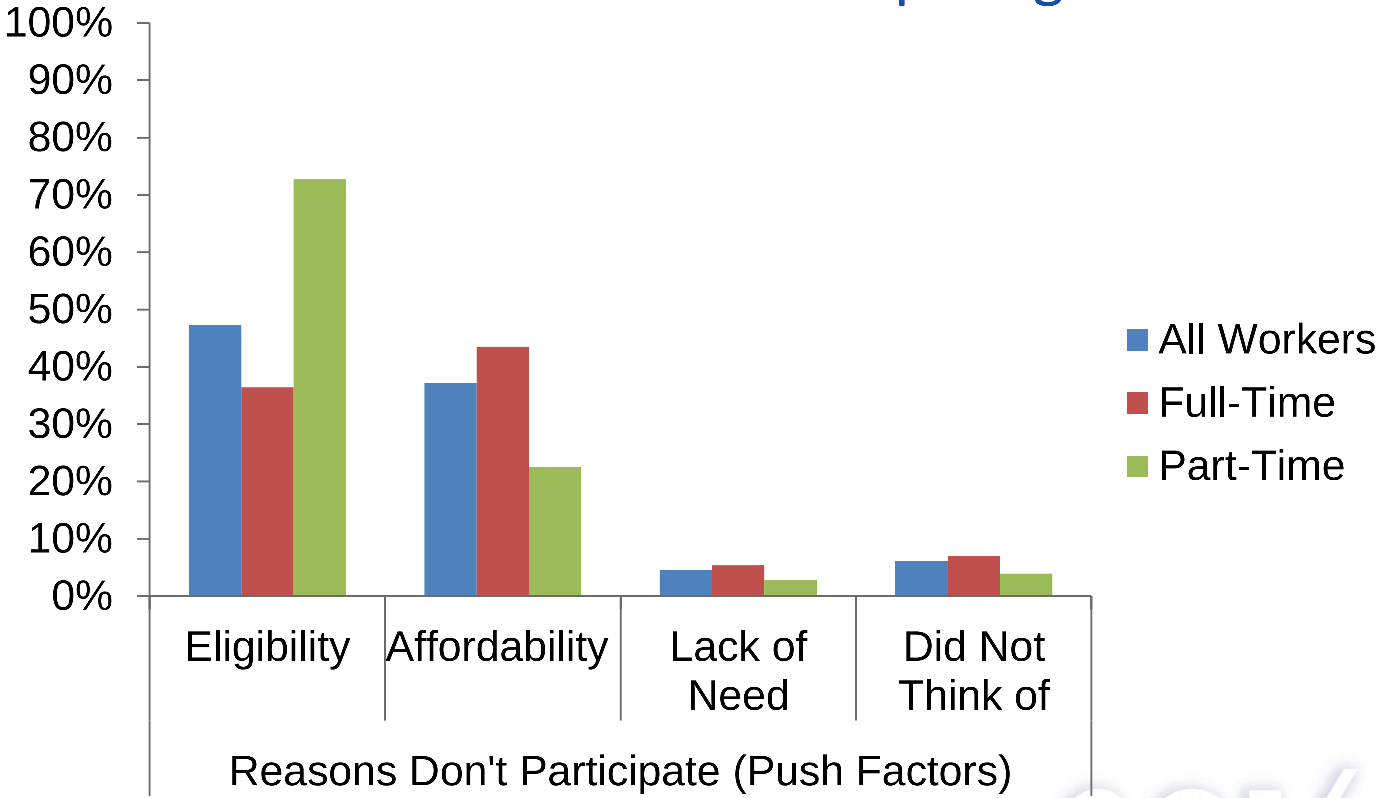
Reasons for Not Participating



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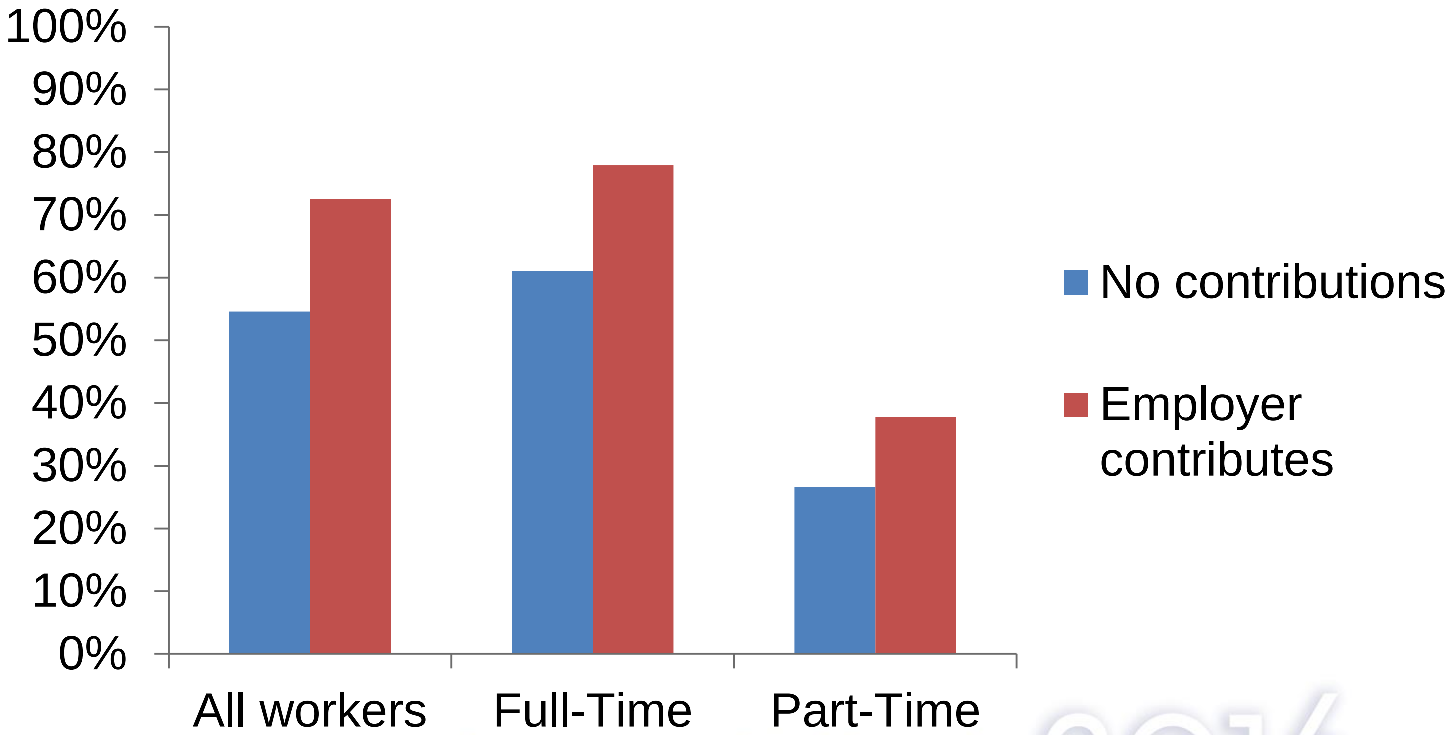
Participation Increases with Employer Contributions



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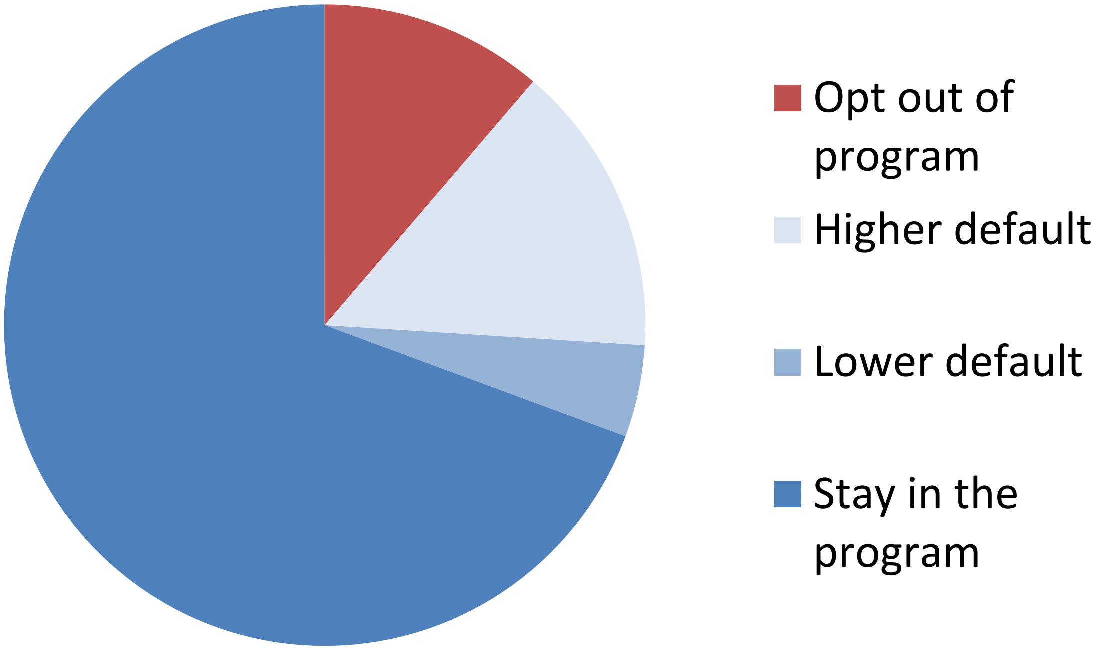
Policy Responses

- Federal: myRA
- State:
  - Multiple employer plan
  - Marketplace
  - Auto-IRA (aka Secure Choice)
  - "How States Are Working to Address the Retirement Savings Challenge: Three Approaches"

Employee Reactions to Auto-IRA

- Pew Survey (*n* = 2,918)
  - Nationally representative online survey
  - Conducted by GfK using their KnowledgePanel
  - **Results are preliminary – Do not quote or cite please!**
- Auto IRA plans have broad support
- Many of the individual features are also viewed positively
- Higher default contribution rates (3% vs 6%) don’t drive opt outs

Overall Employee Reactions to Auto-IRA



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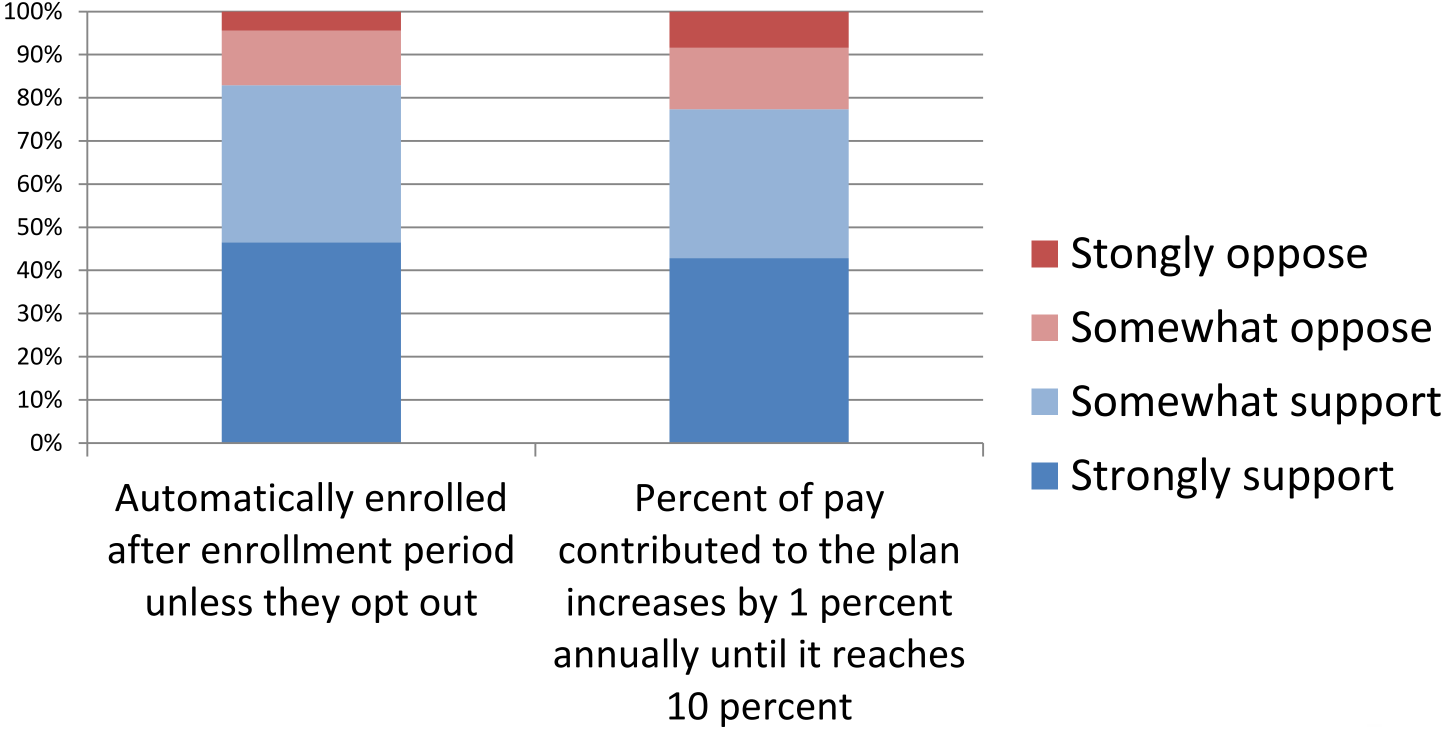
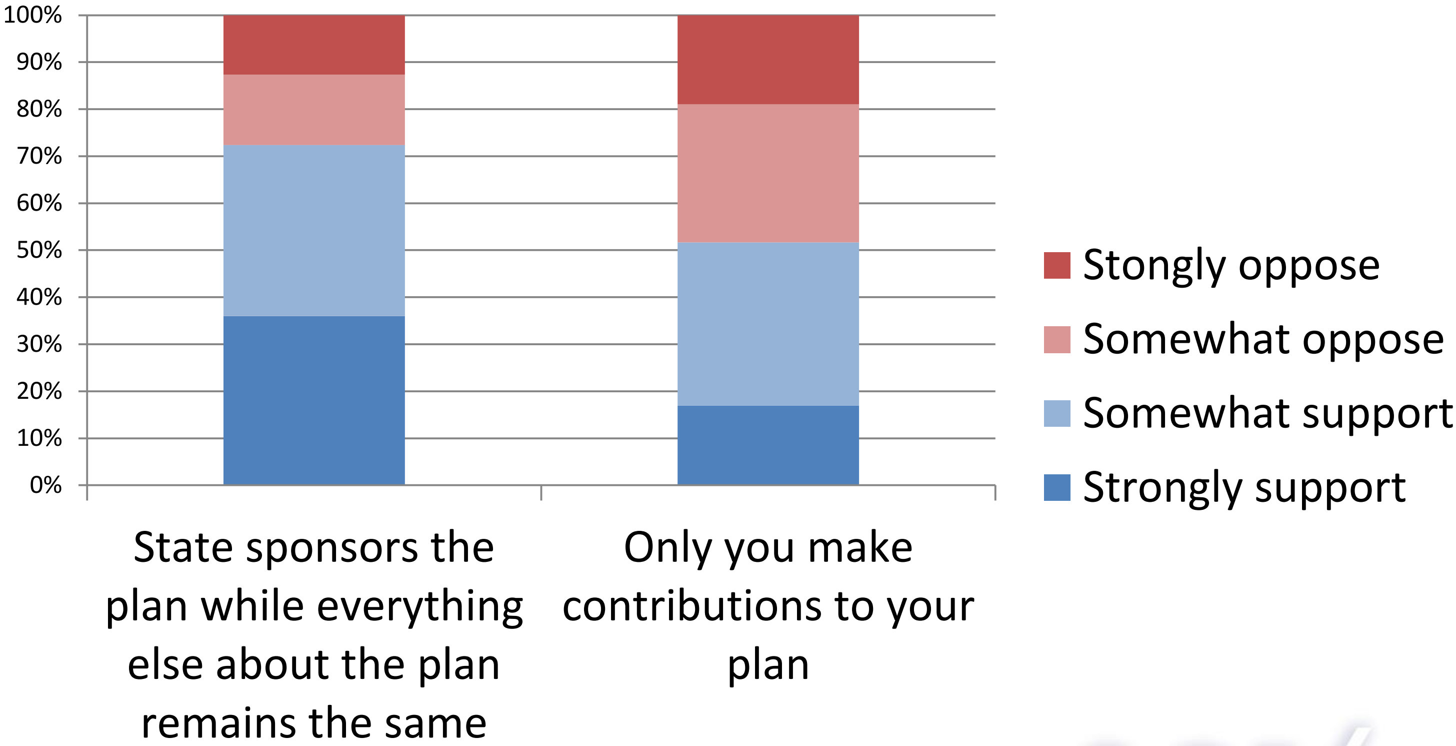
Reactions to Pro-Savings Features



Results are preliminary – Do not quote or cite

State Sponsorship and Employee Responsibility



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Opt-out after All Details, Across Contribution Rates

	3% Default	6% Default	Overall
Stay in the program	73%	72%	72%
Lower default	3%	7%	5%
Higher default	7%	4%	6%
Opt out of the program	18%	17%	17%

Results are preliminary – Do not quote or cite

Conclusion

- Employers and policy are making strides to improve coverage
- Employees welcome opportunities and policies
- But, coverage ≠ retirement security

Thank you!

John Scott – email: jscott@pewtrusts.org
www.pewtrusts.org/en/projects/retirement-savings

Your employer would automatically deduct a contribution from each paycheck and deposit the money into a retirement account in your name. Your savings will be invested and provide you with income in retirement. This account will follow you job to job. Some important features of this program:

- By default, 3 percent of your net pay, or $30 for each $1,000 of your take home pay, will be deducted and deposited into your account. You can change how much you contribute at least once a year and can stop contributions at any time by opting out of the program.
- The money will be invested in a fund with a mix of assets (e.g., stocks and bonds) appropriate for someone your age, managed by a private company that is regulated by the state. These “target date” retirement funds account for the amount of time until you retire and become more conservative as you approach retirement to lower investment risk and protect against loss.
- Contributions are made post-tax; that is, you have already paid your taxes on your contributions, so they grow tax free and will not be taxed when withdrawn.
- You can withdraw your contributions without penalty at any time.

Plan Features

- H2a2. Your contributions can be accessed at any time without a tax penalty.
- H2b2. As a starting point, your contributions to the retirement plan would be a set at 3 percent of pay, but you could change that amount at any time.
- H2c2. Imagine an additional plan feature where every year, the percent of pay that you would contribute to the plan would automatically increase by 1 percent until it reaches 10 percent. For example, after one year it would change from 6 percent to 7 percent. But again, you can adjust your contribution or stop this increase at any time.
- H3a. Your contributions to the retirement plan would be invested in a target date retirement fund, which accounts for the amount of time remaining until you retire. The fund becomes more conservative as the "target date" (the date of expected retirement) approaches to lower investment risk and protect against loss.
- H3b. You are automatically enrolled after an enrollment period and would have to opt out if you did not want to participate. That is, contributions to the account would automatically come out of each paycheck unless you told your employer that you did not want to participate. You could opt out at any time.
- H3c. Your contributions stay in the plan, and you will have access to your contributions even if you change jobs.
- H3d. Suppose this plan is sponsored by your state government. Everything about the plan remains the same: your contribution is still deducted from your paycheck by your employer who deposits it in your personal individual retirement account, which is managed by a private investment company. The investment company would be selected and monitored by the state. The funds in your account are legally your money, and cannot be accessed by your employer or the state.

H3e. Only you make contributions to your fund; neither your employer nor the state government would make contributions.

Putting our Panel on the Spot

- What are your own views of the retirement readiness of America today and in the future?
- How would you draw America's future stool?
  - Does it still have three legs?
  - What's the thickness and length of each leg?
  - What will be the biggest changes we can expect in the future?