MODERNIZING THE U.S. RETIREMENT SYSTEM—

ALIGNING POLICY WITH REALITY
Advance retirement policy by focusing on new or emerging ideas that have the potential to better align public policy with current and future retirement needs.
Policy Must Keep Up

Drivers of change
- Aging society
- Longer life expectancy
- Volatile economy
- Employer/Employee relationship
- Inequality of income/wealth/education
- Family structures

Policy objectives
- Social Security – reform and fiscally stabilize
- Expand retirement plan coverage and participation
- Support and strengthen employer role
- Facilitate individual decision-making
- Increase benefit adequacy
Imagine

Car parts

Retirement parts
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Participants’ comments expressed today are their own and do not represent their respective organizations.
Welcome

Introductory Remarks
Retirement Security for All Americans:
The Role of Social Security

From past to future

Preparing for retirement

GROUP DISCUSSION

Living in retirement

GROUP DISCUSSION

Moving forward
Social Security: **What does it provide?**

- Retirement and survivor benefits started in 1940
- Disability benefits started in 1957
- Benefits rise with average wage *across generations*—and with consumer price index (CPI) after eligible
- All scheduled monthly benefits have ALWAYS been paid in full and on time
- Congress has always acted to meet every challenge for their constituents
Social Security: What does it provide?

- Over 95% of those over age 62 are eligible for benefits
- At the end of 2017, beneficiaries are:
  - 42 million retired workers
  - 9 million disabled workers
  - 4 million widow(er)s
  - 4 million children
  - 2 million spouses
Social Security: What does it provide?

• Intent was a 3-legged stool
  – Social Security—floor of protection
  – Employer-provided pension
  – Personal savings

• Target 75-80% “replacement rate” in total?

• How much has Social Security provided?

• How much will it provide in the future?
  – Consider benefit starting at age 65
Scheduled Monthly Benefit Levels as Percent of Career-Average Earnings by Year of Retirement at age 65

- Low Earner ($23,353 for 2018; 25th percentile)
- Medium Earner ($51,894 for 2018; 56th percentile)
- High Earner ($83,031 for 2018; 82nd percentile)
- Max Earner ($128,400 for 2018; 100th percentile)

Social Security

Replacement Rates at Age 65
Social Security: **What does it provide?**

**Unmatched opportunity to purchase a CPI-indexed life annuity**

- By deferring start from age 66 to 70, the monthly payment increases by 32% for life
- And this carries over to a surviving spouse

Could use some personal or defined contribution (DC) savings or work longer to defer start of Social Security
The Big Shift in Employer-Sponsored Pensions:

How Much Will Be in a Lifetime Annuity?

Social Security: **What does it provide?**

**The trust fund reserves are projected to become depleted in 2034**

- If nothing is done, only 79% of scheduled benefits will be payable in 2034
- And this drops to 74% by 2092
- This is what can be provided with the currently scheduled level of revenue for the program

So we just need some adjustments!
Social Security

Old-Age, Survivors, and Disability Income (OASDI) Program

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

Cost: Scheduled and payable benefits

Cost: Scheduled but not fully payable benefits

Non-interest Income

Payable benefits as percent of scheduled benefits:
- 2017-33: 100%
- 2034: 79%
- 2092: 74%

Expenditures: Payable benefits = income after trust fund depletion in 2034

Calendar year

2005 2015 2025 2035 2045 2055 2065 2075 2085 2095
Social Security

Rising Cost as a Percent of Payroll due to Changing Age Distribution (affects all 3 legs)
Social Security: *Solutions*

**Get to Sustainable Solvency** (or at least make progress)

By 2034:

- Reduce cost by about 25%
- or raise revenue by about 33%
  - Or some combination of these

Policymakers have suggested, and we have evaluated, over 130 provisions for making these adjustments, such as...
Social Security: **Solutions**

Some ways to lower Social Security costs that have been considered

- **Lower benefits for retirees—not disabled?**
  - Increase normal retirement age (lowers OASDI cost, but increases DI cost)
  - Can exempt long-career low earners (Simpson Bowles)

- **Lower benefits mainly for high earners?**
  - Reduce primary insurance amount (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 cost-of-living adjustment (COLA) by using a chain-weighted version
  - But some say increase it with the CPI-E (based on purchases of consumers over age 62)

https://www.ssa.gov/oact/solvency/provisions/index.html
Social Security: **Solutions**

Some ways to increase Social Security income that have been considered

- Raise the 12.4 percent OASDI payroll tax rate?
- 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

https://www.ssa.gov/oact/solvency/provisions/index.html
From past to future
From past to future

- Social Security to private pensions
- What has worked, what has not
- Coverage/participation: auto-IRAs
- Adequacy: employer contributions
- Preservation: limit leakage
  - Termination of employment leak
  - Emergency savings
From past to future

• Lifetime income*
  – Qualifying Longevity Annuity Contracts (QLACs)
  – QDIA (Qualified Default Investment Alternative) embedded annuities
  – Bi-fur-k-tion
  – Self-annuitization
  – Trial annuitization
  – Defined benefit (DB) plan partial annuitization
  – Progressive Required Minimum Distribution (RMD) reform

• Expanded saver’s credit

• Keeping score

* These are in addition to other noteworthy ideas, such as those included in the Retirement Enhancement and Savings Act (RESA) proposed legislation -- safe harbors for lifetime income, lifetime income projections, and portability.
Preparing for retirement
Preparing for retirement

Major goals that can be impacted by policy

• Joining/participating
• Contributing enough (and minimizing leakage)
• Investing prudently

Critical gaps and barriers

• Cost/benefit for small employers, emerging gig economy
• Competing “life” priorities
• Education, skill sets, motivation
• Fiduciary risks—litigation
• Access to home equity
• Low interest rates, volatile markets
• Affordable options
Preparing for retirement

• Personalized auto-enrollment and auto-escalation
• Risk pooling
  – Active and retiree open multiple employer plans
  – DC risk pools
  – Defined ambition/DB risk-sharing/collective DC/composite plans
• Financial wellness—emergency funds, loan repayment plans, integrated Health Savings Accounts (HSAs), education
• Realigning incentives
Living in retirement
Living in retirement

• Major goals that can be impacted by public policy
  – Retirement income portfolios
  – Move beyond financial literacy

• Potential strategies
  – Work longer
  – Holistic view
Living in retirement

- Facilitate retirement income portfolios
  - Safe harbor for retirement income menu
  - Enable a Qualified Default Retirement Income Alternative (QDRIA)
- Deploy behavioral economics
  - Use more descriptive terms to describe retirement ages
  - Fund future research
Living in retirement

• Encourage longer work lives
  – Federal Insurance Contributions Act (FICA) taxes paid up after 35 or 40 years
  – Medicare is secondary payor for active employees

• Adopt a holistic view
  – To help fund Medicare, add a dedicated tax on cigarettes and unhealthy foods
  – Eliminate government subsidies of unhealthy foods
Moving forward
Moving forward

Retirement policy that...
Moving forward

- There is no shortage of ideas
- Let’s focus on what we know best—developing practical and effective solutions
- Let’s get going!
Recap of major themes

- Restore public confidence in sustainability of Social Security and Medicare
- Provide incentives to work longer (for those who can)
- Provide protections and incentives to employers, providers, and individuals
- Facilitate risk mitigation
Today’s ideas that policy can support

01 From past to future
- Leakage
- Emergency savings
- Auto-IRA
- QLACs
- QDIA embedded annuities
- Bi-fur-k-tion
- Self-annuitization
- Trial annuitization
- Partial DB annuitization
- RMD reform
- Saver’s credit
- Keeping score

02 Preparing for retirement
- Personalized auto-features
- Risk pooling
- Financial wellness
- Reviewing incentives

03 Living in retirement
- Retirement income portfolios
- Behavioral economics
- Longer work lives
- Holistic view
DISCUSSION
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