Ensuring Sustainability

Sustainability

- Intergenerational equity
  - Retirement plans are essentially deferred compensation
  - Plans need to be adequately funded to avoid burdening future generations
  - Benefits that are too expensive to fully fund may not be sustainable

Sustainability

- Proper cost allocation
  - Costs should be reasonably allocated among stakeholders
  - Risk should also be allocated appropriately
  - Tax incentives affect cost to taxpayers and society
    - frequent changes affect cost allocation

Sustainability

- Market shocks
  - Financial crises are inevitable
  - Plans need mechanisms to deal with crises
    - Funding cushions
    - Adjustment of funding costs
    - Adjustment of benefits
  - Risk sharing enhances sustainability

Sustainability

- Balancing sustainability and adequacy
  - Little or no risk in plan enhances sustainability but decreases benefits or adequacy
  - Excessive risk in plan makes crisis inevitable and challenges sustainability
  - Self adjusting systems may enhance both by auto-changing:
    - Allocation or level of cost
    - Retirement ages
    - COLAs or other benefit provisions

Sustainability Summary

- Promotes intergenerational equity
- Allocates cost properly among stakeholders
- Withstands market shocks
- Maintains balance between sustainability and adequacy