MODERNIZING THE U.S. RETIREMENT SYSTEM—

ALIGNING POLICY WITH REALITY

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Today's Objective

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.

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Policy Must Keep Up

Drivers of change

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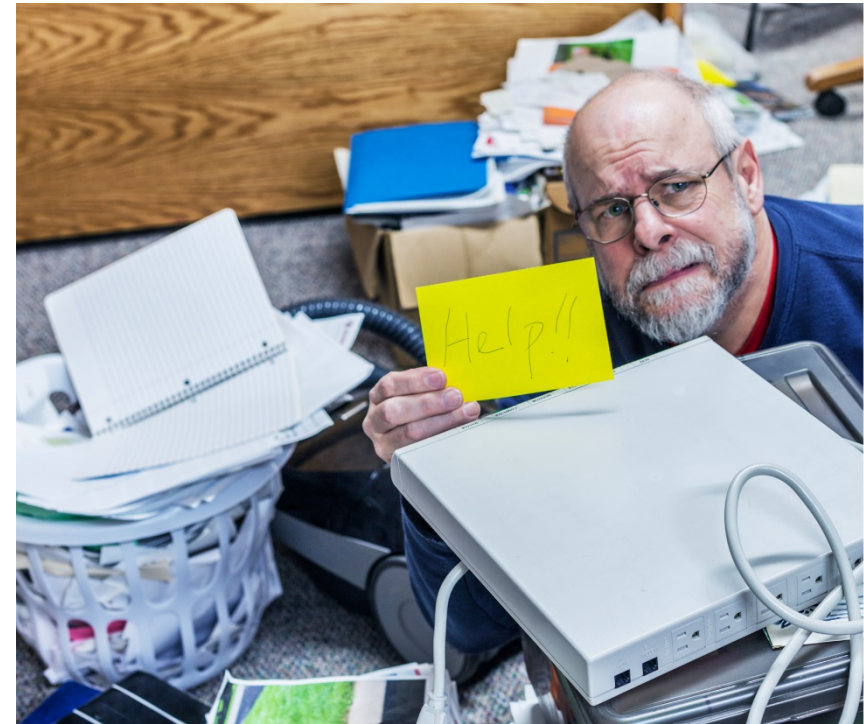- Family structures

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

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Imagine

Car parts

Retirement parts

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Participants

WELCOME

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Participants' comments expressed today are their own and do not represent their respective organizations.

Agenda

- **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**

- **Moving forward**

  GROUP DISCUSSION

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Retirement Security for All Americans:

The Role of Social Security

Presented by Steve Goss

Chief Actuary

Social Security Administration

July 27, 2018

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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

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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

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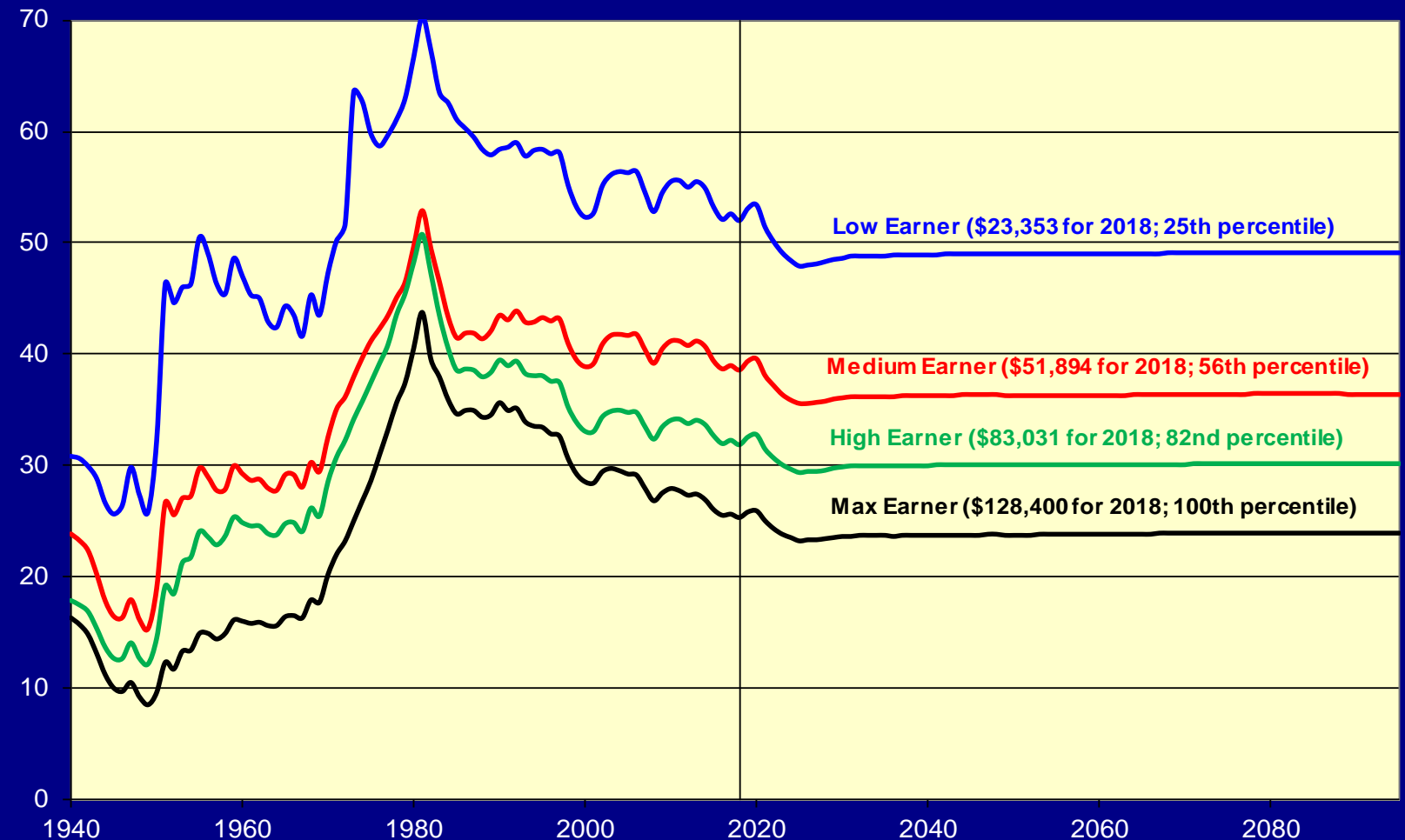
Social Security: **What does it provide?**

- 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

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Social Security

Replacement Rates 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)

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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

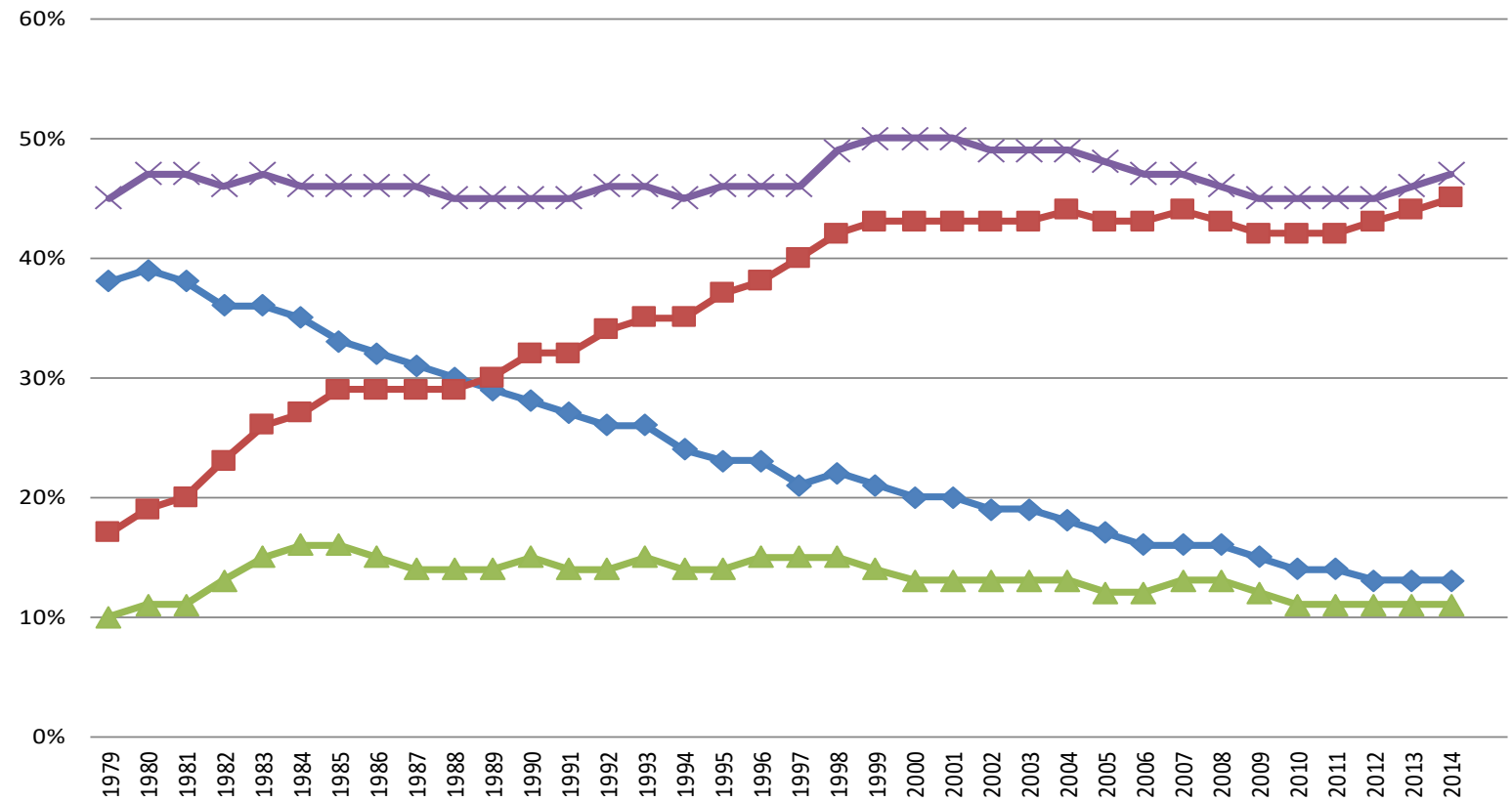- And this carries over to a surviving spouse

Could use some personal or defined contribution (DC) savings or work longer to defer start of Social Security

Social Security

The Big Shift in Employer-Sponsored Pensions:

How Much Will Be in a Lifetime Annuity?

Private-Sector Workers Participating in Employment-Based Retirement Plans, by Plan Type, 1979-2014

Source: U.S. Department of Labor Form 5500 Summaries 1979-1998, Pension Benefit Guaranty Corporation, Current Population Survey 1999-2013, EBRI estimates 1999-2014.

Defined Benefit Total   Defined Contribution Total

Both   Either

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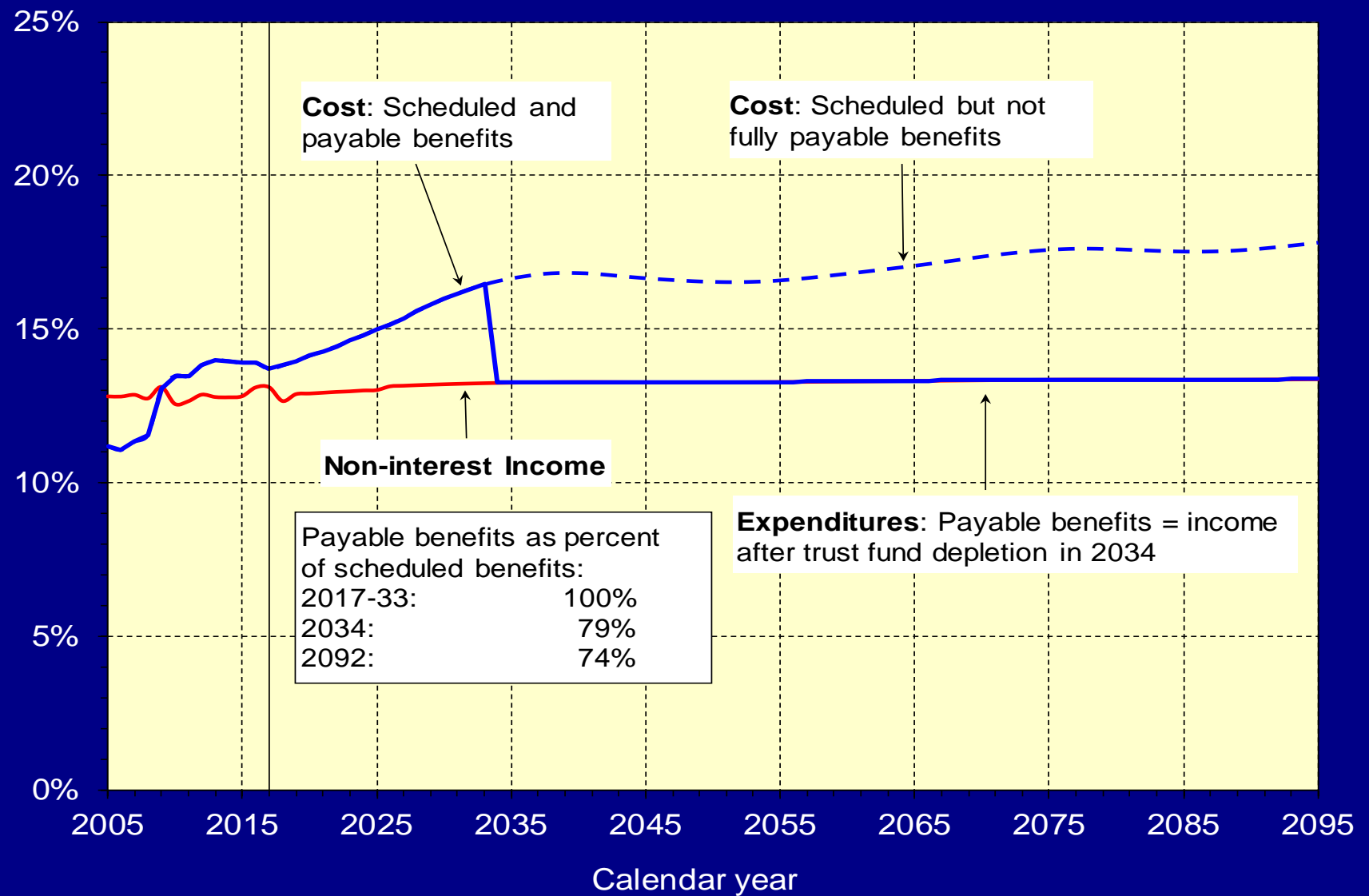# Social Security: **What does it provide?**

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
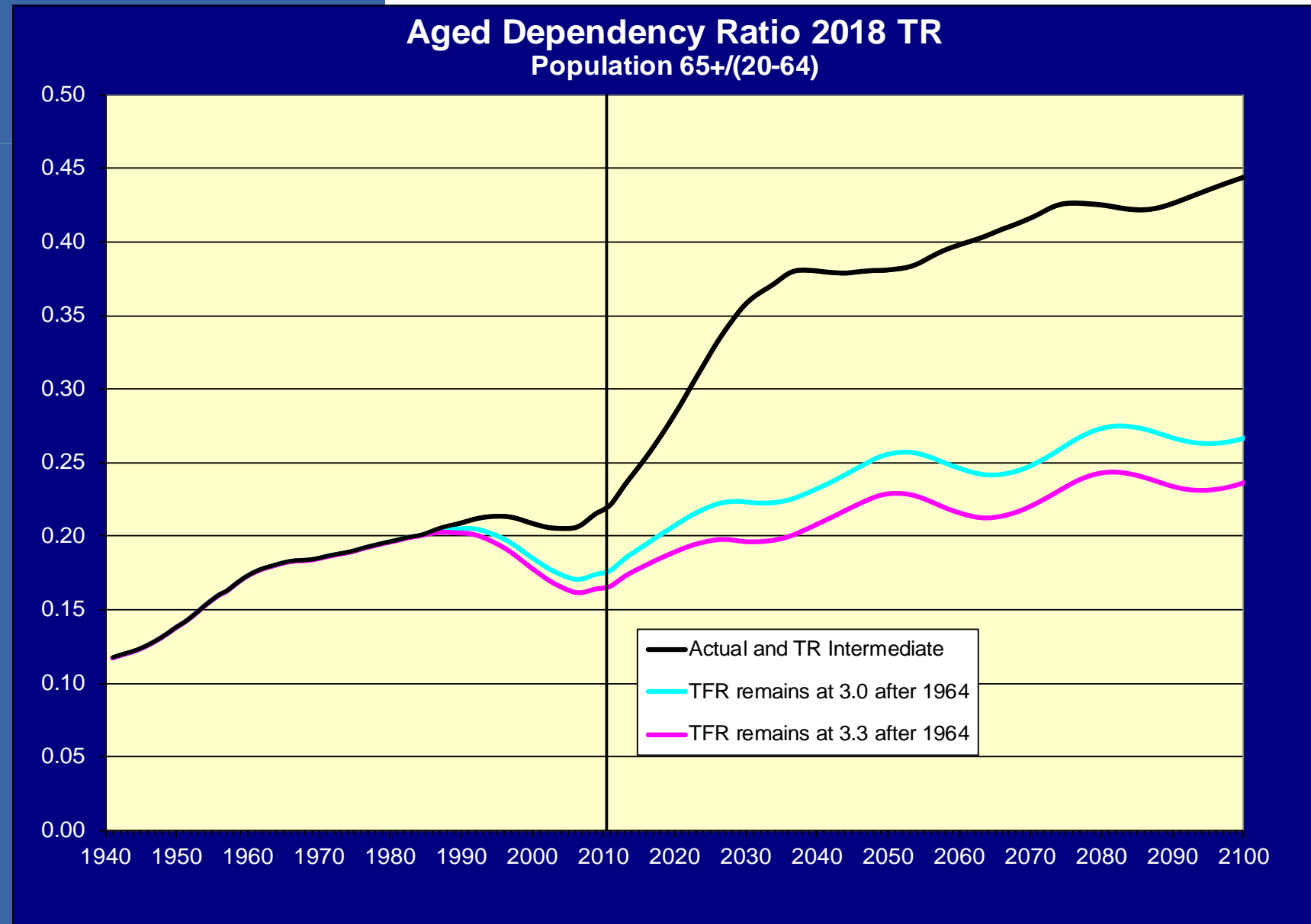 level of revenue for the program

So we just need some adjustments!

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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

Social Security

Rising Cost as a Percent of Payroll due to Changing Age Distribution (affects all 3 legs)

Aged Dependency Ratio 2018 TR
Population 65+/(20-64)

Legend:
- Actual and TR Intermediate
- TFR remains at 3.0 after 1964
- TFR remains at 3.3 after 1964

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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

01 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

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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.

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02 **Preparing for retirement**

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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

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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

DISCUSSION

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03 **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

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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
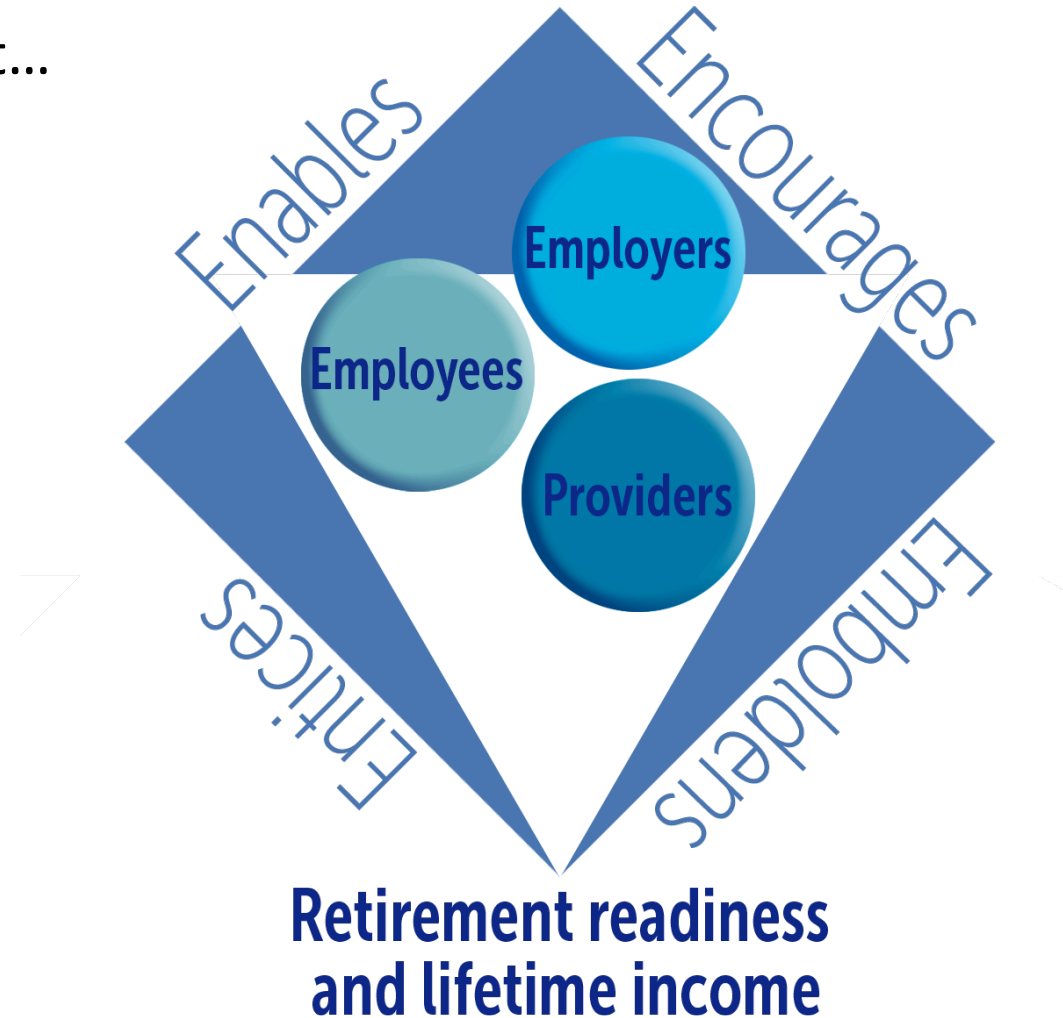
Living in retirement

- 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

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Moving forward

Retirement policy that…

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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

ALIGNING POLICY WITH REALITY

- **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**

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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

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DISCUSSION

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#ModernizingRetirement

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