

All findings, interpretations, and conclusions of this presentation represent the views of the author(s) and not those of the Wharton School or the Pension Research Council. © 2009 Pension Research Council of the Wharton School of the University of Pennsylvania.
All rights reserved.

All findings, interpretations, and conclusions of this presentation represent the views of the author(s) and not those of the Wharton School or the Pension Research Council. © 2009 Pension Research Council of the Wharton School of the University of Pennsylvania. All rights reserved.

Reorienting Retirement Risk Management

Pension Research Council
2009 Conference
April 30th, 2009

Discussion of Session #2 Papers
Austin S. Rosenthal

Disclosures and Comments

- The views expressed herein are my own, not those of the Pension Research Council, Lincoln Financial Group (“Lincoln”) or anyone else
- These views also reflect my personal experiences over the last nine years of corporate and pension finance advisory work, including my more recent work as a key member of Lincoln’s Benefits Investment Team
- I thank Olivia Mitchell for the opportunity to be a Discussant and I thank the Authors in advance for their patience with my forthcoming comments

Constructing New Retirement Systems: Choosing Between Insurance and Investment, Choice and Default

by Emily K. Kessler

- Paper summarizes The Society of Actuaries' ("SOA") *Retirement 20/20* initiative, the ultimate goal of which is to develop new retirement systems that meet the needs of stakeholders better than existing DB/DC models
- Their research has found that key tensions between insurance and investment and the degree of choice exist between the following pension stakeholders:
 - Individuals, Society, Employers, Markets
- Paper describes a tool developed by SOA called the Measurement Framework which determines how well any particular system meets retirement needs
- Paper also focuses on and evaluates three "alternative" models: TIAA-CREF, Dutch industry and UMC plans

Constructing New Retirement Systems: Choosing Between Insurance and Investment, Choice and Default

by Emily K. Kessler

- Some observations:
 - Information about the four stakeholders, evaluation criteria in the Measurement Framework, and the plan designs that are evaluated is well summarized
 - Conclusion provides useful recommendations about plan design; brings up important points:
 - Markets work best when well trained agents approach the markets
 - Understanding how health and long-term care needs impact retirement are essential part of good plan design
 - Low cost standardization of insurance markets will be difficult to achieve given vested interests
 - Could also mention or evaluate new “hybrid” DB/DC schemes such as Collective and Structured DC in The Netherlands and new DC systems that have insurance overlays (SponsorMatch, etc.)

Rebuilding Workers' Retirement Security: A Labor Perspective on Private Pension Reform by Damon Silvers

- Paper discusses history of pension provision in the U.S. and the importance of the labor movement in ensuring the provision of adequate pensions for middle class Americans
- The author highlights problems in retirement security:
 - Money (adequate funding), investment management, market risk, employer credit risk, longevity risk, portability and early withdrawals, and regulation
- Paper proposes principles for broad based pension reform including universal pension coverage financed by mandatory contributions and/or an expansion of Social Security

Rebuilding Workers' Retirement Security: A Labor Perspective on Private Pension Reform by Damon Silvers

- Some observations:
 - I appreciate the provocative tone of the paper and the discussion about the ironies in pension regulation and practice
 - Universal pension coverage presents numerous funding questions which are addressed briefly – are we willing to accept a lower standard of living as a society for a more stable and equitable retirement?
 - Dutch model provides potential learnings – near universal pension provision, solidarity, portability, treatment of different wage earners – but this will require a mass cultural change for Americans
 - Real question is where will idealism meet pragmatism and what will that solution look like?

Summary

- These papers both advance the debate on the proper plan design given the numerous stakeholders
- It is near impossible for average individuals to deal with the complex problem of ensuring adequate retirement income throughout a lifetime without professional advice or management, so how can our industry provide dependable, consistent advice at an affordable price?
- How will we remove the institutional rigidities in the retirement marketplace to make annuity and investment products accessible and understandable to average Americans?
- Will we ever reach consensus about the ideal pension design and will we be able to achieve this?