

**2014 Pension Research Council Symposium  
Session I: Today's Retirement System:  
Adequacy, Equity, Efficiency and Stability**

***Discussant Remarks***

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## The U.S. Institutional Retirement Marketplace

- Mosaic of qualified plans is being rewritten
- DC plans and DB plan features gradually converge
- Plan sponsor role in traditional DB and DC models shifts
- Broad investment themes
- DB plan management frame of reference shifts from assets to liabilities
- New generation of DB products that manage volatility risks
- ***Retirement readiness a wild card***

## **Retirement Readiness: Observations from the Papers**

- Central importance of retirement readiness on the part of individuals and households is a given
- Most models and analyses based on an age 65 premise
- Methodology counts – a lot
- Assumptions count – even more
- Conventional wisdom replaced by more nuanced findings
- “Retirement” is changing

## Retirement Readiness: Some Levers are Bigger than Others

- Relatively Modest Effects
  - *Rate of return*
  - *Use of housing equity*
  - *Working until age 70*
- Very Significant Effects
  - *Eligibility for a DC plan*
  - *Existence of a DB accrual*
  - *Effect of longevity is quite striking*
  - *Impact of annuitizing on level of savings needed*
- More Work Needed
  - *Acute health care, post ACA and uninsured long term care impact*

## Retirement Readiness: Questions the Papers Raise

- Is 65 the best age to use in models?
  - *62 is the most popular age for beginning benefits (45% men, 50% women born in 1943 & 1944)<sup>1</sup>*
  - *Does the inherent 25% reduction suggest that readiness may be overstated?*
- Under what circumstances is past experience not a strong foundation for prospective work?
  - *Scholz's cohort of retirees, 2001-2007, pre-Great Recession*
  - *Hurd's reliance on short term results*
- Is more research needed on post-retirement consumption patterns on households with children?
  - *32% of all young adults 18-34 living with parents in 2012<sup>2</sup>*
  - *56% of young adults 18-24 living with parents in 2012<sup>2</sup>*

<sup>1</sup>US News, Money, 9/9/2013

<sup>2</sup>Wall Street Journal, 5/3/2013

## Participant Perspective: EBRI 2014 Retirement Confidence Survey

- Retirement confidence highly correlated to having a retirement plan
- American workers focusing on the importance of retirement income
  - *85% of workers contributing to plans find lifetime income illustrations useful*
- Only 1 in 2 (56%) willing or able to respond to plan balance and contribution questions
  - *58% of those reported income equivalent in line with expectations*
  - *27% of those said somewhat less or much less than expected*
    - *81% of those would or could not increase plan contributions*
    - *17% would increase plan contributions*
- Primary reason for not increasing contributions is need for current income
  - *Applied to all income levels*

## Plan Sponsor Perspective: MetLife U.S. Retirement Research

- Retirement Income Culture Correlated with Plan Type
- Objectives, Communication and Measurement Key Indicators

DC Only Plans	Broad Coverage DB + DC Plans
Barometer Score: 55	Barometer Score: 71
% of sponsors who believe most workers reach retirement age <b>without</b> a sufficient ability to generate retirement income: 58	% of sponsors who believe most workers reach retirement age <b>without</b> sufficient ability to generate retirement income : 28
Savings to income importance ratio <sup>3</sup> : 2.25	Savings to income importance ratio: 1.48

- Emerging Winds of Change?

<sup>3</sup>Ratio of those responses that savings was most/very important / those that income was very/most important plan goal.

## Retirement Readiness: Predictions & Implications

- Retirement patterns uncertain and may become less predictable
  - *Income central to both retirement patterns and retirement security*
  - *Retirement confidence tied to presence of a retirement plan*
- Awareness of the importance of income at and after retirement
  - *Enabling condition for voluntary retirement*
  - *Economic downturn has increased workers living paycheck to paycheck*
- Multiple implications of active employees over 65 for sponsors
  - *Effect on auto features, plan accruals, RMD rules, DB disbursements*
  - *New types of workforce management challenges*
- Multiple implications of retirement inadequacy if not addressed
  - *Long-term drag on economic growth*