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2024 Pension Research Council (PRC) Symposium

Session 3: Spending Challenges

Discussant : Sudipto Banerjee, T. Rowe Price

Date: May 3, 2024

Title: Does 401(k) Loan Repayment Crowd Out Retirement Saving? Evidence from Administrative Data and Implications for Plan Design

Authors: *John Beshears, James Choi, Joel Dickson, Aaron Goodman, Fiona Grieg, and David Laibson*

- Excellent Paper! Precise answer to a precise question – Little to no crowd out.
- Suggest new plan design ideas to offset potential retirement savings leakage due to SECURE 2.0 emergency savings provision of up to \$1,000 penalty-free withdrawals
 - Default participants into an automatic repayment schedule, or automatic 2 percentage-point increase in elective contribution rate
 - Make a default increase in elective contributions for those who successfully repay their loans

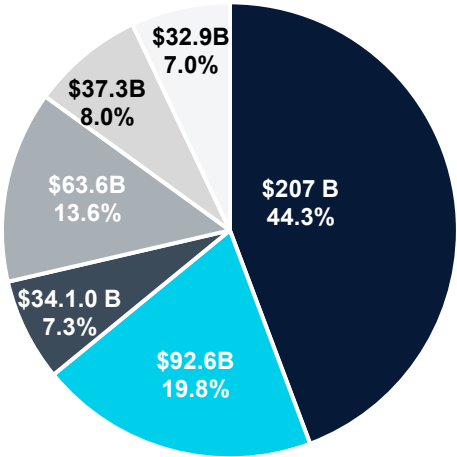
Some Thoughts

- The missing household financial picture could be crucial (Choukhmane & Palmer, 2024)
- The first order decision for plan sponsors – in-plan or out-of-plan emergency savings? The results suggest defaulting participants into an out-of-plan emergency savings account is also feasible.
- Possible issues with 2021 data – govt. transfers (economic impact payments, advanced child tax credits etc.) , and pandemic-induced spending declines.

Long-Term Care – Macro Concerns

- According to CBO’s latest Long-Term Budget Outlook (March 2024) cost of major health care programs are expected to reach 8.3% of GDP by 2054, from 5.6% of GDP in 2024.*

Long-term Services and Supports (LTSS) Spending , by Payer, 2021 (in billions)**



Total Spending: \$467.4B
Public Spending: \$333.6B (71.4%)
Private Spending: \$133.8B (28.6%)

■ Medicaid ■ Medicare ■ Other Public ■ Out-of-pocket ■ Private Insurance ■ Other Private

*Source: Congressional Budget Office, The Long-Term Budget Outlook: 2024 - 2054, <https://www.cbo.gov/system/files/2024-03/597111-Long-Term-Outlook-2024.pdf>

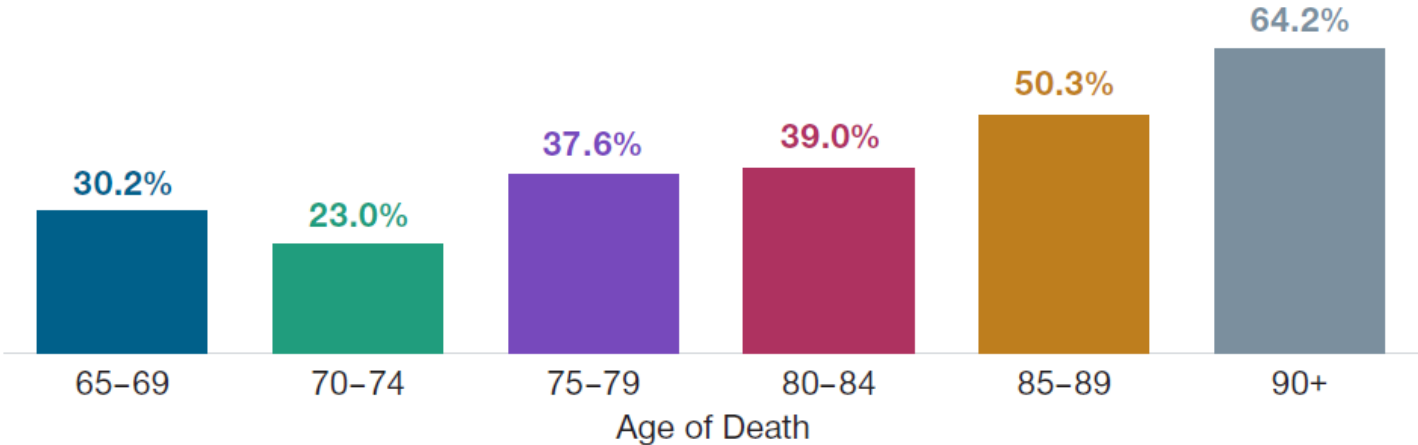
**Source: Congressional Research Service, In Focus, 10343, September 19, 2023

Long-Term Care – Micro Concerns

Q: How concerned are you about these expenses now that you are in retirement? (Not a concern, Minor Concern, Major Concern)*

	2019	2020	2021	2022	2023
Top Major Concern	LTC (23%)	LTC (22%)	Living Expenses (34%)	LTC (23%)	LTC (25%)
2nd Major Concern			LTC (31%)		

Percentage of retirees who had a nursing home or long-term care stay (of any length) in the last two years of their lives**



*Excluding hospice care.
 Source: T. Rowe Price estimates from the HRS, 2012–2018.

*Source: T. Rowe Price Retirement Savings and Spending Study (2019 – 2023).

**Source: Banerjee, Sudipto “The Truth About Health Care Expenses Late In Life”, T. Rowe Price Whitepaper, July 2023.
<https://www.troweprice.com/content/dam/fai/Collections/DC%20Resources/truth-about-health-care-expenses/truth-about-health-care-expenses-late-life.pdf>

Title: Reforming US Long-Term Care Insurance Market

Authors: *R. Anton Braun & Karen A. Kopecky*

- Impressive work! Great foundation for further exploration of the topic.
- Authors develop a structural model to study potential reforms to the US LTCI market.
- Three alternatives considered – No Medicaid, Universal Medicaid, & Public Partnership (PP)
- Conclusion – Social welfare and LTCI market functioning improves under PP.

Some Thoughts

- Authors suggest relaxing restrictions such as cap on the exemption on equity in primary residence, minimum coverage ratio etc. to make PP more effective. Optics of such public policy changes could be challenging, particularly as the burden on Medicaid increases.
- What happens if income-based cost-sharing is added to this universal public coverage scenario?
- Private market interventions – LTCI Exchanges? Pooled group LTCI plans?
- Extend the model to compare different designs of private LTCI (traditional LTCI vs. hybrid LTCIs)
 - Are QLACs combined with LTCI better than standalone LTCI policies?



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Thank You



Additional Disclosures

Retirement Savings and Spending Study (RSS)

The Retirement Savings and Spending Study is a nationally representative online survey of 401(k) plan participants and retirees. The survey has been fielded annually since 2014.

The 2019 survey was conducted between June 13 and June 25, 2019. It included 3,016 401(k) participants, full-time or part-time workers who never retired, currently age 18 or older, and either contributing to a 401(k) plan or eligible to contribute and have a balance of \$1,000+. The survey also included 1,005 retirees who have retired with a Rollover IRA or left-in-plan 401(k) balance.

The 2020 survey was conducted between June 5 and June 24, 2020. It included 3,420 401(k) participants, full-time or part-time workers who never retired, currently age 18 or older, and either contributing to a 401(k) plan or eligible to contribute and have a balance of \$1,000+. The survey also included 1,007 retirees who have retired with a Rollover IRA or left-in-plan 401(k) balance.

The 2021 survey was conducted between June 9 and August 4, 2021. It included 3,844 401(k) participants, full-time or part-time workers who never retired, currently age 18 or older, and either contributing to a 401(k) plan or eligible to contribute and have a balance of \$1,000+. The survey also included 1,332 retirees who have retired with a Rollover IRA or left-in-plan 401(k) balance.

The 2022 survey was conducted between June 24 and July 22, 2022. It included 3,895 401(k) participants, full-time or part-time workers who never retired, currently age 18 or older, and either contributing to a 401(k) plan or eligible to contribute and have a balance of \$1,000+. The survey also included 1,136 retirees who have retired with a Rollover IRA or left-in-plan 401(k) balance.

The 2023 survey was conducted between July 24 and August 13, 2023. It included 3,041 401(k) participants, full-time or part-time workers who never retired, currently age 18 or older, and either contributing to a 401(k) plan or eligible to contribute and have a balance of \$1,000+. The survey also included 1,176 retirees who have retired with a Rollover IRA or left-in-plan 401(k) balance.

NMG Consulting conducts RSS on behalf of T. Rowe Price.

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