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Academy Summer Summit Addresses the Aging of America

ACADEMY MEMBERS GATHERED IN WASHINGTON in July to hear from policymakers, analysts, and leaders of Academy practice councils on the aging of America. Representatives from AARP, the Brookings Institution, the Social Security Administration, and others discussed retirement security.

"According to a Census Bureau report issued last month, the percentage of the population over age 50 in 1900 was 4 percent. By 2050, it will be almost 20 percent," explained Academy President-Elect Mary D. Miller. "That raises all kinds of challenges, from retirement security to health care to support for caregivers. We have to consider where the Academy should be focusing its resources in order to develop sustainable solutions to these challenges."

A group of experts from outside the profession helped to frame the problems posed by an aging population.

Leslie Fried, senior director of the Center for Benefits Access at the National Council on Aging, briefed listeners on what she called "the economic insecurity of older adults, and the programs that assist them."

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Brookings Scholar Proposes Automatic Annuity Program

RETIRING WORKERS in America face a challenge today that previous generations rarely saw, thanks to a fundamental change in the retirement system.

Many of today's retirees have spent much of their careers in the 401(k) system, rather than in the defined benefit system. These workers start retirement, not with lifetime income, but with a relatively large sum of cash they are expected to manage to meet their needs for the rest of their lives.

Many could convert that lump sum into a guaranteed income on the annuity market. Few do.

William Gale, Arjay and Frances Miller Chair in Federal Economic Policy in the economic studies program at the Brookings Institution, thinks they could be incentivized to use annuities to defend against longevity risk. Addressing attendees at the Academy's 2014 Summer Summit, he summarized a proposal from a paper he wrote with fellow researchers David C. John, J. Mark Iwry (now deputy assistant secretary for retirement and health policy with the U.S. Treasury Department), and Lina Walker.

The proposal is simple—employers should "automatically default 401(k) holders into an annuity that is partial, covering a certain percentage of their balance, perhaps 50 percent or 75 percent, and lasts two years, after which they can opt in or out."

The move would take advantage of a tendency documented in several studies—when people are automatically enrolled in a program at retirement, they tend to stay with it. "We don't have to lock people in for the rest of their lives on this. The idea

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"More than one third of seniors are economically insecure," Fried explained, with fully 9 percent living below the federal poverty level. Many rely on credit to bridge the gap. Consumers over 65, she added, carry "an average of $10,235 in credit card debt." Adding to their expenses, almost 40 percent of seniors, she said, have three or more chronic conditions to manage. Many do not take advantage of public assistance programs that could help them.

Donald Redfoot, a strategic policy advisor with AARP, updated attendees on AARP's Middle Class Security Project, which examined the state of middle class homeownership, education, health care, and savings, and their impact on retirement.

"We found that working-age, middle-income people saw their security decline," Redfoot noted, "and it got worse the younger we looked." In particular, he said, "we found that a costly illness, losing a job, mounting debts, and a plunge in home values can derail a secure retirement."

Redfoot was one of several speakers to note that a shift from defined benefit plans to defined contribution plans left workers with decisions that, in past generations, had been made for them by employers. "We're facing the question of how much can people realistically plan for and understand," he said.

Policymakers, Social Security Administration Chief Actuary Steve Goss noted, have many tools with which to address the potential crisis—but face the question of which approaches are politically possible. There is not, he said, "an absolute limit that makes a policy sustainable or unsustainable. The only limit is what we're willing to pay."

Social Security Administration Deputy Chief Actuary Alice Wade added that, to ensure the long-term sustainability of the Social Security program, "we need to either reduce Social Security's costs by 25 percent, or increase its revenue by 33 percent. Congress has to act."

In a roundtable discussion among Academy practice council leaders, Pension Practice Council Vice President Eli Greenblum explained that the Pension Practice Council "has to look at the retirement system, rather than individual products." The council, he said, has been concerned with "helping people understand that they can't just plan for their life expectancy."

The Pension Committee has focused some of its efforts on developing education tools, he said, including a lifespan illustrator "to help people understand the chances of a single life, or a couple, still being around at 75, at 80, and beyond."

Lee Goldberg, vice president for health policy at the National Academy of Social Insurance (NASI), and Anne Montgomery, a senior policy analyst at the Altarum Institute and NASI visiting scholar, attended to gauge Academy members' thoughts on these issues ahead of the next White House Conference on Aging (WHCOA).

No formal date has been set, but White House staffers hope to hold the once-a-decade event next year, coinciding with the 50th anniversary of the Older Americans Act.

Goldberg told attendees that the White House hopes to organize a series of regional events leading up to the summit, and will be seeking input from stakeholders intimately familiar with the challenges posed by America's aging population. He asked Academy members to stay engaged, and prepared to contribute at those events. Issues covered could include the future of the retirement system, long-term care, and end-of-life care.

The conference would ultimately produce a report, Goldberg said, that "would include policy recommendations geared both at Congress and at things that could be executed at a state and community level."

Trustees Report Shows Little Change for Social Security

The solvency and long-term financial status of Social Security have remained largely unchanged during the past year, according to the 2014 report of the Social Security and Medicare Boards of Trustees.

The July 28 report projects that the Social Security Old Age, Survivors, and Disability Insurance (OASDI) program will cover benefits through the year 2033, if no changes to the program are made. After that, Social Security payroll taxes could cover three quarters of benefits through 2088. At the end of 2013, the OASDI program was providing benefit payments to about 58 million people, including 41 million retirees.

IRS Releases Hybrid Retirement Plan Rules

THE INTERNAL REVENUE SERVICE has released both final and proposed rules addressing hybrid retirement plans. The final rules have been pending since first proposed in 2010, and apply to "defined benefit plans that use a lump sum-based benefit formula, including cash balance plans and pension equity plans, as well as other hybrid retirement plans that have a similar effect."

The final rules address market rates of return for cash balance plans, increase the maximum permitted fixed interest credit, and cover vesting, plan terminations, and other issues. The rules apply to plan years beginning on or after Jan. 1, 2016.

The proposed rules address transition for plans that currently provide interest credits greater than a market rate of return. The IRS has requested comments on the proposal by Dec. 18.

Essential Elements: Securing Social Security

THE ACADEMY HAS PUBLISHED a new paper explaining the issues behind the Social Security reform debate in simple terms, as part of the Essential Elements series, designed to make actuarial analyses of public policy issues accessible to broad audiences.

"The program's long-term solvency challenge stems from a declining ratio of workers per Social Security beneficiary," the paper explains. "Americans are having fewer children and living longer than in the past, and those trends will be coupled with baby boomers retiring in large numbers over the next 20 years."

Possible solutions include:

- Raising payroll taxes, currently set at 12.4 percent, or increasing the cap on the maximum amount of income taxed for Social Security purposes, currently set at $117,000 annually;
- Increasing income taxes devoted to the program;
- Lowering the annual cost-of-living adjustment for beneficiaries;
- Reducing benefits to wealthier retirees; and
- Raising the retirement age.

The paper notes that "Social Security is not in imminent financial danger," but that it does face long-term sustainability problems, and that the longer adjustments are delayed, the more drastic they will need to be to close the gap.

ASB Requests Input on Public Pension Standards

THE ACTUARIAL STANDARDS BOARD (ASB) has issued a request for comment regarding actuarial standards of practice (ASOPs) that relate to public pension plan funding and accounting.

The ASB continually reviews all of its standards, and that review cycle has it considering revisions of many of the pension standards. Within the past year, the ASB has approved several revised pension standards, including ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions* (December 2013); ASOP No. 6, *Measuring Retiree Group Benefit Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions* (May 2014); and ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations* (September 2013). ASOP No. 34, *Actuarial Practice Concerning Retirement Plan Benefits in Domestic Relations Actions*, and No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*, are also being revised.

With public pension plan funding the focus of political and press attention nationwide, the ASB has decided to seek feedback from a broader range of experts, actuaries, and other interested parties who would like to improve America's public pension plans.

Comments are due Nov. 15.

How Other Countries Are Handling the Retirement Crisis

SHIFTING AGE demographics are not a uniquely American problem. Virtually every industrialized nation is facing a variation on the crisis posed by the wave of baby boomer retirements in the United States, Global Aging Institute President Richard Jackson told attendees at the Academy's annual Summer Summit in Washington in July.

And, for all of those countries, "The challenge now is to provide a decent standard of living for the old without placing a crushing burden on the young."

The scope of the problem is dramatic. "For most of human history, the elderly have comprised only a tiny fraction of the human population—never more than 5 percent until well into the 20th century. But in today's developed world, they comprise about 20 percent. By 2030, that number will be 30 percent, and in some developed countries, as high as 40 percent."

The U.S., Jackson said, may actually face an easier challenge than many of its global peers. The country currently has a median age of 37, likely to reach 40 in a decade. Within that same period, he noted, Europe's median age could reach 48, while Japan's may reach as high as 55.

Americans also tend to work longer than people in many other countries. Almost 40 percent of Americans between ages 65 and 74 are still in the labor force, Jackson noted. Among developed nations, only Japan and Iceland can claim a higher number.

The number of older Americans working will only grow, he said. "Since 1996, the share of American workers saying they plan to retire at age 60 has fallen, while those who expect to retire after 65 has grown." The country can also claim a "welfare state that is less expensive and less expansive" than most industrialized nations.

But, he told attendees, there are challenges unique to America's position that may give it "a road just as bumpy as some of the countries with the worst projected numbers."

American health care costs, he cautioned, are "growing at a much faster rate than in other developed countries." Though cost growth has slowed in recent years, it remains high in comparison to most other countries, he said.

The demographic challenge of the baby boom generation is also statistically different here, Jackson noted, where the "fiscal shock" of the baby boom generation's retirements will likely be compressed into a shorter time than in any comparable economy.

Most of the nations he has studied, Jackson said, "are already undertaking dramatic reforms" that the U.S. has not yet begun.

However, he cautioned, it's difficult to evaluate the success of those reforms. "Some of the progress that other countries have made may be more apparent than real." In particular, Jackson said, the reforms may not have been subject to rigorous actuarial analysis.

"None of these countries have a highly professional agency that analyzes the impacts of these programs going forward," he said, while the U.S. has the Social Security Office of the Chief Actuary to project the impact of potential reforms.

Jackson noted, "Countries making the deepest cuts in public benefits often have high levels of elderly dependence on public benefits."

He concluded, "It may be in the long run no more possible to have a fiscally sustainable system that is socially inadequate than it is to have a socially adequate system that isn't fiscally sustainable."

PBGC: Protecting Pensions and the Role of the Actuary

THE PENSION BENEFIT GUARANTY CORP. (PBGC) employs more actuaries than almost any other federal agency, with 30 credentialed professionals on staff, and another ten employees in the process of earning actuarial qualifications. Their job is to oversee more than 26,000 private-sector pension plans, representing the retirement incomes of almost 45 million people.

Two of the PBGC's highest-ranking actuaries joined the Academy for a June 30 webinar, PBGC: Protecting Pensions and the Role of the Actuary. The event was part of the Academy's Capitol Forum: Meet the Experts webinar series.

Neela Ranade is the agency's chief negotiating actuary, and heads its Corporate Finance and Restructuring Department. C. David Gustafson is the PBGC's chief policy actuary, within its Policy, Research, and Analysis Department, under Director Chris Bone.

Ranade explained that her team handles most of the policing of plan administration. "We monitor existing plans for potential hazards," she said. The Corporate Finance and Restructuring Department maintains an early-warning system for single-employer plans, which "monitors the government's largest exposures, and identifies transactions that pose an increased risk" to the solvency of the agency.

The PBGC has the right to terminate a plan, Ranade said, but the option is rarely invoked. "Since its inception, we've had over 100 settlements but just three plan terminations." At the moment, the PBGC has no comparable system for multiemployer plans.

Ranade encouraged actuaries interacting with the PBGC to be as transparent as possible. The agency, she said, is aware that corporate transactions typically have very tight deadlines. "Usually everyone is under the gun." The best way to ensure that the process moves quickly, she said, is to anticipate regulators' needs. "We encourage dialogue between PBGC actuaries and plan actuaries," she concluded.

Gustafson's Policy Research and Analysis Department, he said, advises lawmakers and the public on the impacts of pension policy changes. The department, he said, "is required to provide a report to Congress giving an actuarial evaluation" of the state of the pension system, and consults on proposed changes.

His department employs economists and actuaries to aid its research. Later this year, the department plans to release a study of what has triggered mass withdrawal from multiemployer plans, historically. Gustafson praised Academy work on policy issues, particularly an issue brief on PBGC premium structure.

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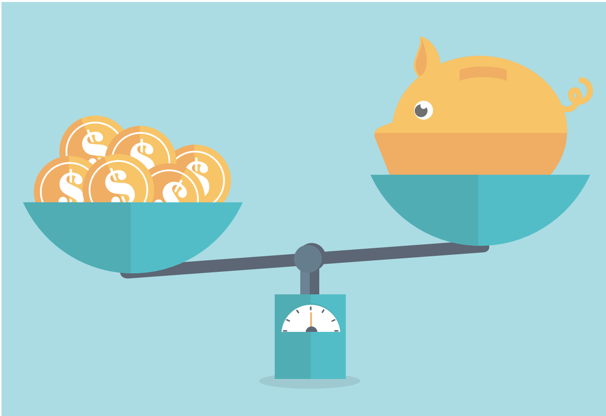
is to introduce them to annuities," he explained. Once they'd grown accustomed to the structured monthly income of an annuity, the researchers predicted, few would be likely to opt not to have it.



The plan would not require any new products or changes to annuities themselves. It would simply introduce more retirees to an option most seem unwilling to consider, and get around what he called "the big/small problem," that people are unwilling to part with what looks like a large sum of money in return for what appears to be a small monthly payment.

"Consumers have no experience taking large cash balances and converting them into annual income flows, and asking them to do it all at once on a permanent basis makes them leery," he explained. Enrolling them automatically, then giving them the chance to opt out after a set period, might help more make a better decision.

The change comes down to marketing. "Annuities are often packaged as a safe-but-low-return investment, and that doesn't inspire people. There have been studies that show that, if they are presented to people as income stabilization measures, people are more willing to buy them," he explained.

During a question-and-answer session, several attendees noted that, though actuaries tend to emphasize longevity risk, many consumers are scared of having nothing to pass on to their children should they die soon after retirement. Gale answered that the program could include a guaranteed payout to survivors should the retiree die within a certain period.

"This is a second-best solution," he explained, "designed to get around certain cognitive biases" that many retirees have against parting with a large lump sum 401(k) payout. "It can be designed flexibly."