Session 5A: Implications Q&A

Presenters: N. V. Subramanyan
Anna M. Rappaport

Presented at the Living to 100 Symposium
Orlando, Fla.

January 5-7, 2011

Bob Pokorski: Anna, I want to congratulate you on your second paper. It was fabulous! One of the most useful I've heard since I've been here.

I have two questions. One, where do we get the original of what you referenced, the entire paper?

Anna Rappaport: The entire paper is going to be on the Living to 100 website. Andy or Tim, do you know are those papers up now, the full papers?

Tim Harris: Just the preliminary ones are on the website right now.

Anna Rappaport: So they're on the website and there might be some updates, but it's going to be very close.

Bob Pokorski: How soon will these be posted at the website?

Anna Rappaport: They're up there now, I believe.

Tim Harris: They just need to add the discussants' comments and there's a response to the discussants' comments.

Anna Rappaport: And I would also like to add that the research from the Society of Actuaries Committee on Post-Retirement Needs and Risks is on the SOA web site under Post-Retirement Needs and Risks and for anybody that has a client meeting or is giving a speech I'm going to have a little commercial. There is a one-page handout that's updated by the staff that outlines that research. You can download it or get copies from the SOA office and pass it out and it's very useful for just giving a quick overview of the research.

Bob Pokorski: The other question I had, Anna, was what does your comment mean, "enable use of defined-contribution funds for risk protection?"

Anna Rappaport: Okay. What I would like to see is enabling to have distribution options from defined-contribution plans where you could use them to pay for premiums for long-term care, for health coverage. You can, of course, provide for annuities through plans, but I'd like to be able to see a much broader range of through-the-plan distribution options. I submitted comments to the Department of Labor that are up on the Department of Labor website, where we're talking about this a little bit more as well.

Tom Levy: Two comments, no questions. The first is one of the flabbergasting things of this is to look back to Y2K, which is 11 years ago now, and at every actuarial meeting there was a major session on how are we going to deal with the flood of baby boom retirements and have enough people to work and produce what we need and now we're talking about a log jam. One of the suggestions that another actuary commented on, perhaps that discussion was just because the baby boomers liked to talk about it and how their retirement was going to cause a huge catastrophe to the employment world, but there hasn't been any of that and we're now talking about the opposite problem with respect to the exact same people.

The other is we're benefits professionals, demographers, all of this discussion has been focused on how we get people through retirement, meet their financial, their health needs. That's what we think retirement plans and social insurance programs are about. But the policy decisions seem to be made by a group that seems to have no interest in that and that's the economists. So if you go to an economics conference on retirement, you don't hear a word about any of this. What you hear is: How will this affect savings rates so that there is money to invest to grow the economy? You have what we just saw, which is in the face of what we actuaries think is a serious funding problem for Social Security, a reduction in the contribution rate. Why? Because of its economic impact. So if we are going to make all of these things happen, somehow we're going to have to get into the discussion because right now the discussion is strictly a macro-economic discussion and what it does to the people who we're talking about is a small byproduct and nothing more.

Doug Andrews: I enjoyed all three papers. There's a lot of good information in all of them. I have questions for both of the panelists. I'll ask N.V. first because it's a very short question and then I'll ask Anna, because it's a bit of a longer question.

Thank you very much for talking to us about India. I'm fascinated by India, but when I go to developing countries I'm overwhelmed by all of the issues that need addressing and I realize in developed countries how fortunate we are to have an orderly agenda and my first question really then is, where do we start? What's the No. 1 priority to start with? Then I read the *Economist* magazine, the No. 1 priority is to address corruption and fraud. I'd like to know what you think the No. 1 starting point is. I know you've listed a long list of things to do, but where do we start? What's the most important item?

N. V. Subramanyan: Financial inclusion is a starting point to control corruption, at least in India definitely because the number of persons having access to banking or any organized financial instrument is less than 15 percent. So increasing that financial inclusion will be a great start and that will be to control the corruption part, which will set the things in motion. That's my personal opinion again.

Doug Andrews: Thank you. And then with respect to Anna's paper, one of the things that hasn't been talked about at this conference but is certainly part of the longer-term horizon that we're looking at is that generally there's going to be a reduction in living standards in developed countries. So when we talk about the BRIC countries coming up, the opposite side of that is the developing countries are going to be coming down, part of that being because they have aging populations which will mean fewer resources being provided to the labor market and to the economy.

If we move into this situation of reducing living standards, there's going to be a strong pushback. People don't want to have their living standards reduced. To apply that in two areas, one, with respect to phased retirement, I can see reduced living standards cutting two ways. One, there will be a desire for continued work so phased retirement on the behalf of employees will be desirable. On the other hand, there may tend to be a battle between the generations, and that is if retirees or phased retirees are willing to work for less than other workers, will not employers be more willing to employ retirees and that, in turn, will further impact the living standards of the younger workers and there will really be intergenerational conflict. So that's one aspect.

The other aspect is coming to your second paper. Part of the reason people have, as you put it, "short-term horizons," is when they do the simple arithmetic, they're overwhelmed. If you give them the simplest planning model, say what is your life expectancy? Let's just pick one age and we pick 80 and say, okay, assume you're now going to retire at age 65. What is your income? They work out how much they have to save on that basis, they're overwhelmed. They say, we can't save that amount. Let alone saying, okay, now let's assume a distribution for your life expectancy. Let's add in the possibility that you don't retire at age 65. Now, let's assume one of you becomes disabled. It's an overwhelming problem, and so the consequence is they take the solution which they put as spend less. Spending less is a way of saying, saving more. It's the right kind of answer, but it's naïve. To make it a plausible question for people, we need a basic safety net for pension, health care, long-term care. Once you're providing a basic safety net, then some people will be able to plan and manage the rest of it, but for the whole population we need that basis and this will be even more important as living standards reduce.

Anna Rappaport: I'd like to respond just a little bit. In terms of the intergenerational issues, I think retirees are already quite happy to work and do special projects at a lower cost, but employers are not rushing to pick up them. I think the intergenerational issues have started first in Europe and that's certainly something to think about here.

In terms of the need for the safety net, I totally agree with that because a lot of people will have nothing else, but at the same time we also need systems beyond the safety net that will work without people taking action and better ways to help them plan.

Chris Bone: Two things, first I believe labor economists have done a lot of good work on distributional effects of policies. I recommend people interested in this view look at the books issued by the Pension Research Council for some of this work.

Secondly, for Anna, the chart where you started to work out what changes by age is important and a significant contribution. Have you started to separately distinguish the effect of changes in program availability over time?, in other words, the effect due to programs available at the time these people retired versus the expected ongoing state. This would distinguish the cohort effect from the time cross-sectional effect.

Anna Rappaport: Chris's questions about what changes by age and basically for those that work, there's no original research there. I've picked up what I was able to find from different sources, but you raise a really good question in terms of what changes because of people just aging, what changes because of their work status, what changes because of changes in health status and I was going to sort of throw out a challenge in connection to this.

First of all, there are various national data sets that have enough data that you could do work, and there would be a real opportunity there to try to do some things. The health and retirement study that was mentioned briefly, that's the main U.S. longitudinal data set. The National Long-Term Care Study used to be, but it's basically frozen. There's nothing new adding to it, but that's a really great question to think about not just what changes by age, but why and how and that's some very good areas for future research. I've just tried to collect here and start us thinking about that. Also we've done the work on phases of retirement previously. An awful lot of the planning that people do, it kind of gets you to retirement age and then it just assumes inflation. It ignores all of this, so it's a big area for future work.

Andy Peterson: A little bit of a comment and you can respond, often a solution that's put forward is, "We need to improve financial literacy." While I would agree with that, I'm a bit skeptical about how effective that will be and that's why in some of our other work, we've been focusing on the use of defaults and that was certainly illustrated in your presentations. Coming back to the financial literacy thing, at our Retirement 20/20 Conference in June, Mary Nell presented some numbers from her prior employer, FedEx. The number was something like 20 percent of their U.S. employee population was unbanked.

This is at FedEx, a U.S.-based corporation, which is sort of the reverse of what I think N.V. was saying for their statistics in India. But that was a statistic that floored me, that 20 percent of an employee population of a U.S.-based corporation would not even have a bank account. So the challenges of financial literacy for a population like that when you're talking about these sophisticated aspects of retirement planning, I mean we've got to get them a bank account and show them how a checking account works and how you use an ATM card first versus tackling the bigger issues of financial planning and the challenges as Doug was raising about the long-term planning horizon. So I don't know if you have any comments on that, but that's just an observation that I have.

Anna Rappaport: There's a huge population and it's particularly heavy among Hispanics, but there is a huge population in the United States that are unbanked. There's actually new research from the Pew Foundation on why people are unbanked, but I've come to think, and also we haven't mentioned here, there's very many people in the United States that can't read, can't do basic math, can't do percents and there's really layers of this whole literacy issue for people who don't have basic reading and math skills, trying to teach them financial literacy. First they have to learn the other stuff.

For people that are unbanked, you need to get them into the financial system before you can even think about retirement and savings. People talk about retirement readiness. I think about retirement savings readiness, but my reality goes this way. If you think about the spectrum of the population, there's a group at the bottom where the social safety net is it. We need to get the people that are not in the basic systems into the system, but really we're talking about social safety net. There is a group of people at the top that have plenty of money where issues are around how do they do estate taxes or how do they manage their money, what are they going to leave to their kids versus spend. We don't focus on those people in the work that we do. Financial planners do that a lot, but their problem is not retirement planning, it's kind of managing their lives in the context.

There is a vast number of people in the middle that we focus on how do we help them have a better future in the context that they have some resources, they have some struggles, they have many issues.

The more we learn about planning horizons, about the difficulty in getting people to act, that while we need to help them make better decisions, we need to create a world where they make fewer decisions too or where the decisions are easier for them.