SOCIETY OF ACTUARIES

Reenvisioning Retirement

IAC Meeting, June 2005

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Retirement in the 21st Century

- What is retirement, and how will that be redefined for 21st century?
  - Forces shaping current trends
  - Speculation on what is to come
- What does this mean for private pension system?
- How are actuaries adapting?

Expectations …

- 20^{th} century afforded the luxury of low work-force participation among the elderly
  - Post-WWII baby boom pushed parents and grandparents out of workforce
  - Developed countries had strong employer systems and state sponsored pension plans with health care
  - Retirement programs not yet critical in developing nations

> “A growing nation is the greatest Ponzi game ever contrived”
>
> Robert Samuelson

21st century reality

- Global economy
- Graying population
- Increasing medical costs
- Short term: risk transfers to individuals
- Long term: how do actuaries help individuals, society manage these risks?

The 21st century global economy

- Industries come and go quickly
  - Cradle of the industrial revolution (US, Europe) no longer houses manufacturing industry
  - Service industries unconstrained by borders
- Capital unrestrained by national borders
- Investment returns volatile & elusive
- Educated workforce no longer needs to emigrate for economic opportunities: opportunities come to them

The 21st century global economy

- Result: Any employer (or industry) may be here today, gone tomorrow
- Employees mobile, even temporary
- Consequence: employers focused on short-term results, short-term risks
- New reality: Shareholders unwilling to bear long-term risks – including risks of pension benefits

The graying population

- In the midst of increasing economic risk, the retirement tsunami is coming
  - Large number of workers are retiring (post-WWII baby boom)
  - Increased longevity in retirement
- Fertility rates have fallen below replacement in every developed country

The graying population

- Result: rapidly graying populations worldwide
  - Elderly projected to increase from 15% to 27% of population in developed world and 6% to 14% in the developing world by 2050
  - By 2050, China's elderly population (330+ million) will be as great as the entire world's elderly population in 1990

Risk to workers

- Workers at increasing economic risk
  - Need more periods of retraining as jobs / industries shift overseas
  - Jobs/employers don't last a lifetime
  - Longer life spans: bear risk for longer period
- Workers being asked to do more during time of greater risk
  - Employers unwilling/unable to bear economic risk of traditional DB plans
  - Governments unable to increase public income transfers with fewer taxpayers, more retirees

21^{st} century retirement

- In this context, retirement systems must evolve
  - How employers support retirement
  - How governments support retirement
  - How individuals support themselves until death
- Retirement not an event, but a process

A challenge to actuaries

The main challenge is to establish systems in which retirement decisions have a benefit-contribution structure that provides incentives for individuals to make a rational choice to distribute their longer lifespan among retirement, leisure, economic participation and training. Too many pension schemes today are still based on the strict separation of education, work and retirement leisure. A modern economy … [requires] a pension scheme that encourages rather than impedes the mixing of the three activities…

Old-Age Income Support in the 21st Century: An International Perspective on Pension System and Reform
Robert Holzmann & Richard Hinz, The World Bank, 2005

A challenge to actuaries

- How do we help individuals bear increased risks?
  - Longevity
  - Disability risk
  - Healthcare expense
  - Job loss/ job retraining risk
- How do we redesign public systems to withstand demographic waves?
- How do we redesign private systems to spread new economic risks employees face?