

Global Retirement Trends

ICA Congress

Cancun, Mexico

A New Millennium.
A New Challenge for Actuaries

Session Overview

- Speakers
- Global Trends
- Region Specific Issues
 - Australia/Pacific Rim
 - Europe/United Kingdom
 - Latin America
 - United States of America

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Speakers

- Charlie Habliston - US, Mercer
- Martin Lunnon - UK, Government Actuary's Department
- Helen Martin - Australia, Towers Perrin
- Marc André-Paquette - Mexico, Mercer

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Global Retirement Environment

- Demographics
- Labour Market
- Social Security

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Far Reaching Changes

Ratio of Working-Age Adults to Retirees

Region	Current	Projected 2020
North America	3.05	2.05
Europe	2.35	1.75
Australasia	3.10	2.55
Japan	3.20	1.40

Reasons & Implications

Declining fertility rates:
fewer workers

Aging population:
older workers

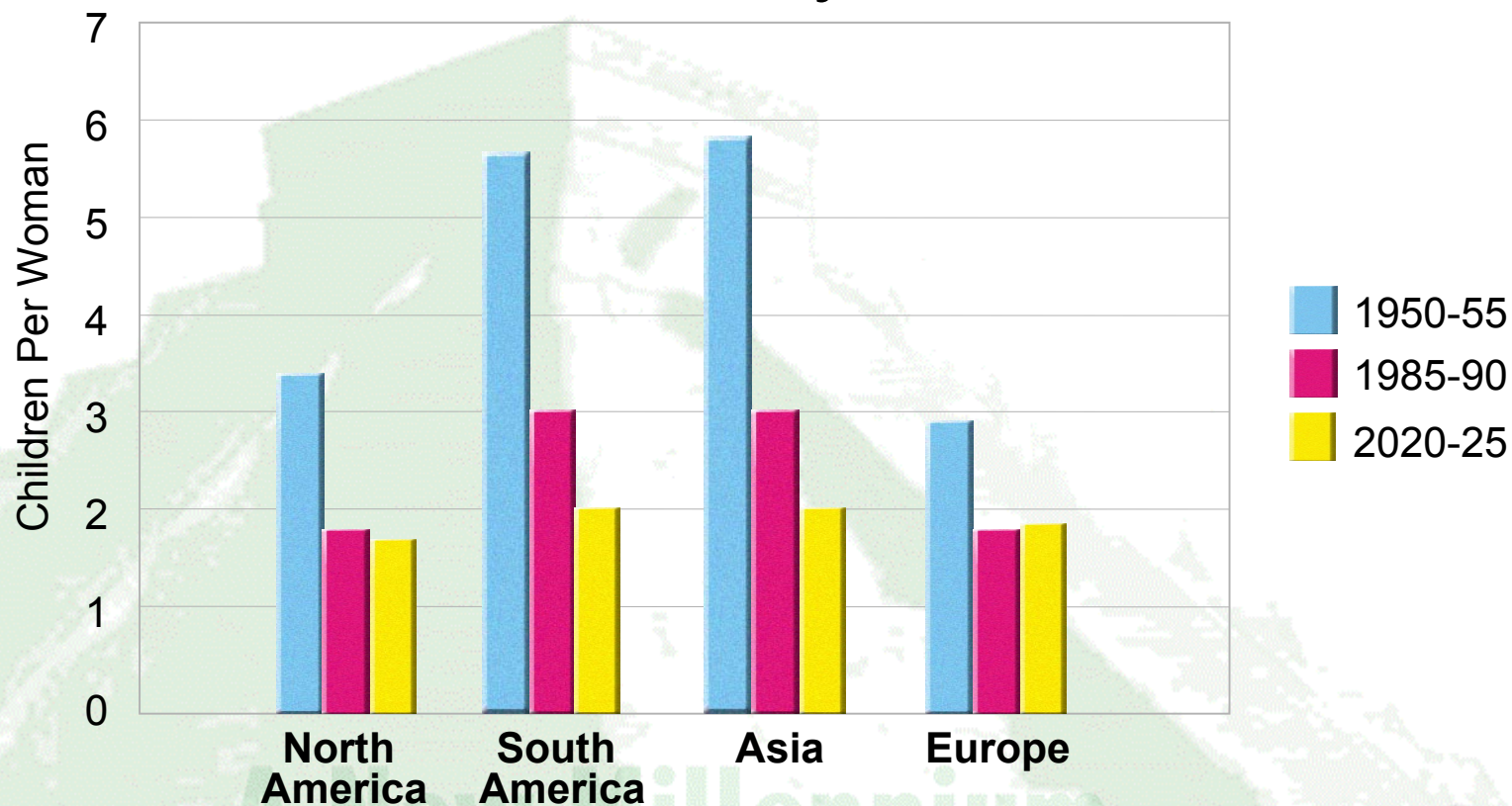
Increased life expectancies:
longer retirement

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Environment...Demographics & Labour Market

Far Reaching Changes

Total Fertility Rate

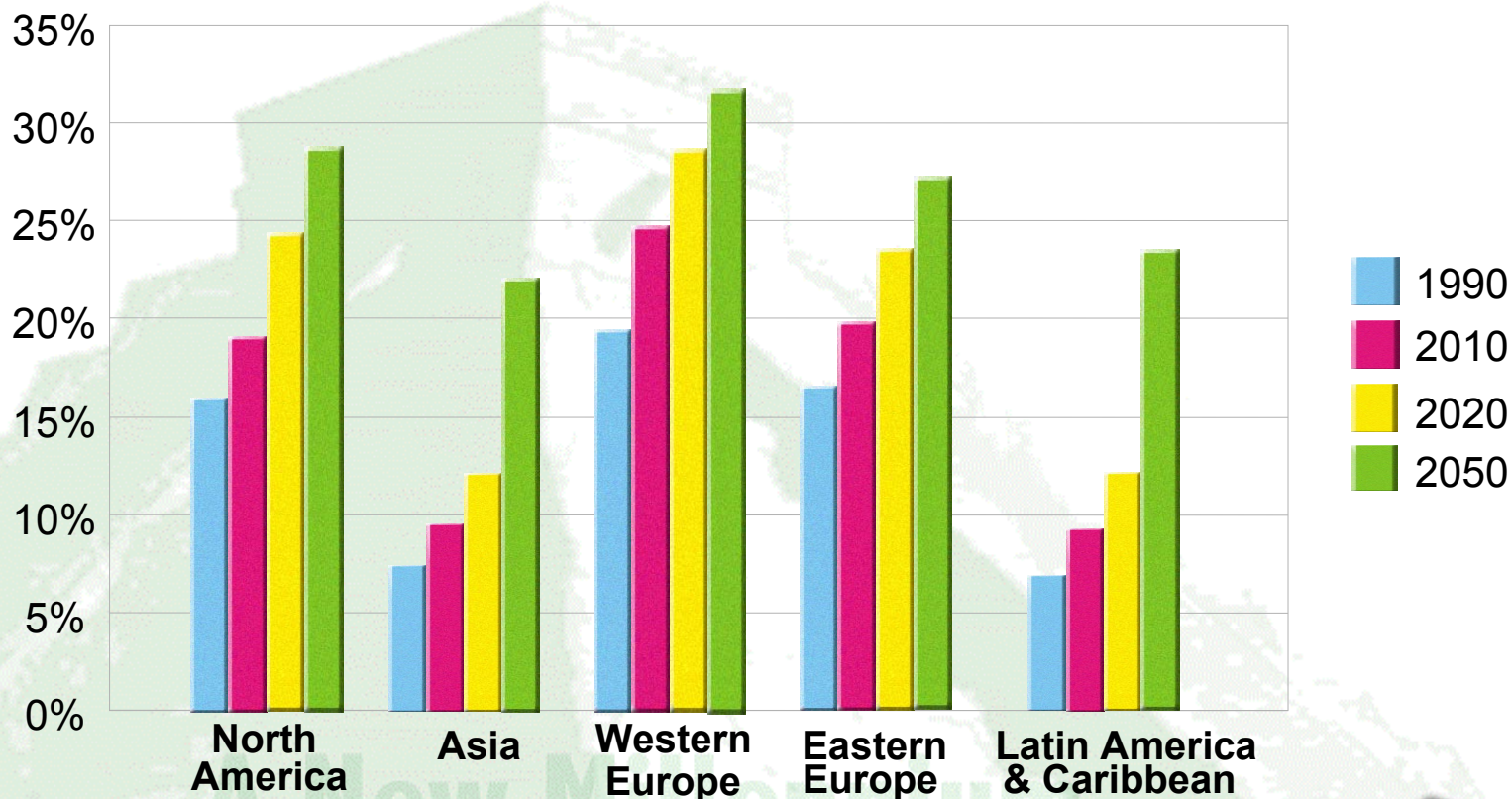


Issue: Fewer Workers

Environment...Demographics & Labour Market

Far Reaching Changes

Percentage of Population Over Age 60

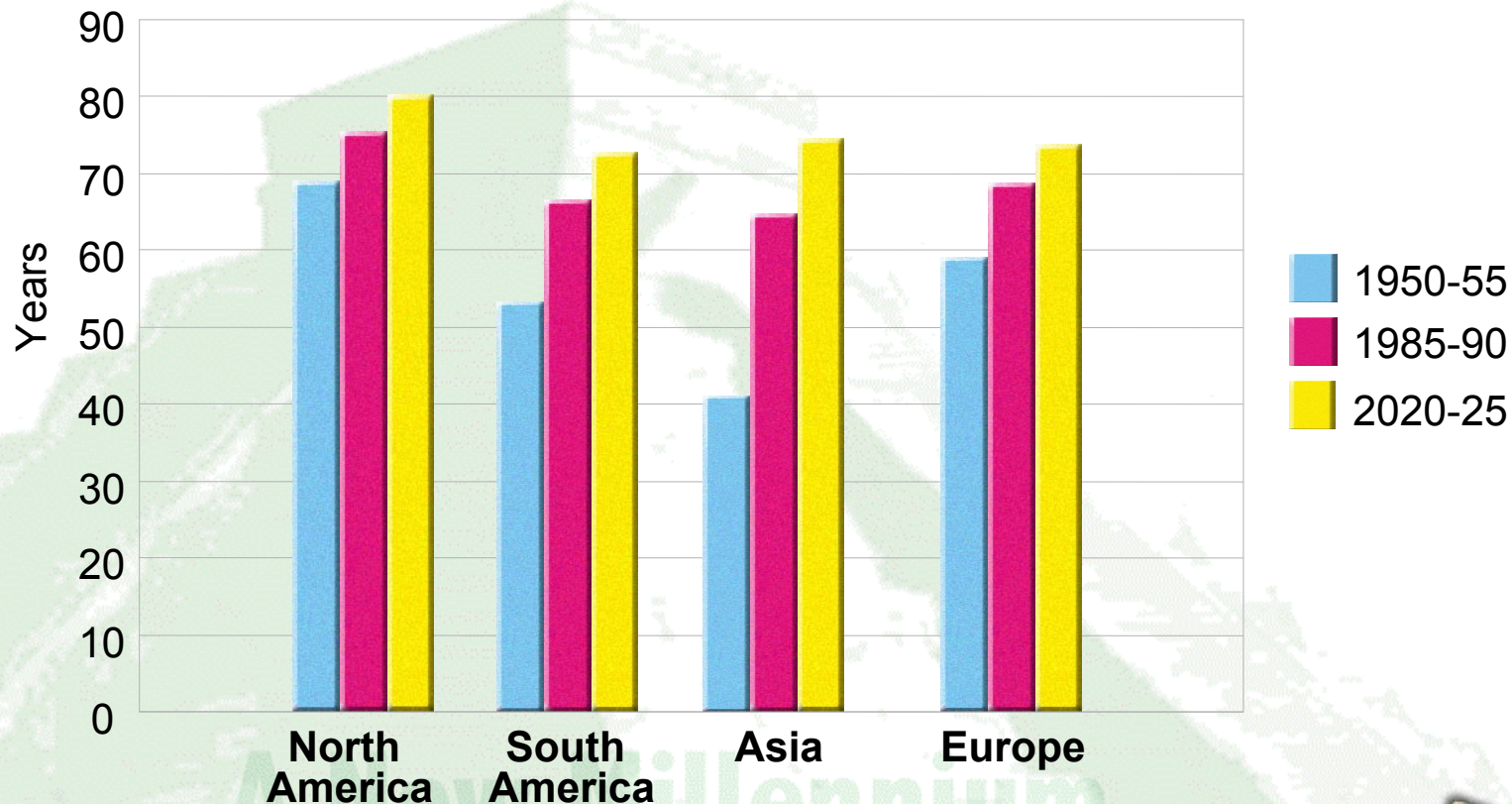


Issue: Older Workers

Environment...Demographics & Labour Market

Far Reaching Changes

Life Expectancy at Birth



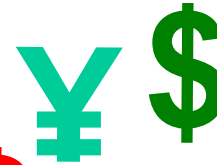
Issue: Longer Retirement

Environment...Demographics & Labour Market

After Retirement

PRESSURE

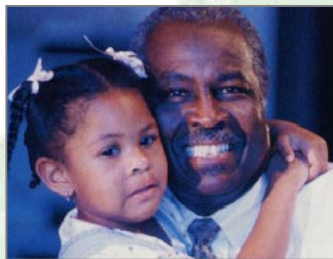
Inflation



Care



Dreams



Medical Needs



Leisure



L O N G E R R E T I R E M E N T

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Environment...Demographics & Labour Market

Far Reaching Changes

Some Business Implications

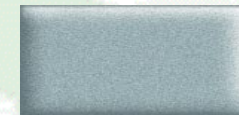
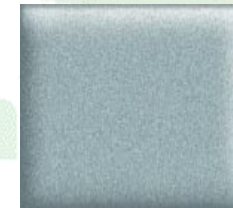
Older Workers

Difficult Situations



Retirees

Actives



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Environment...Demographics & Labour Market

Labour Market Forces

Developing Countries:

Skills Increased

Middle Class Created

Jobs Move to Low Cost Countries

Reduced Union Strength

Job Insecurity

Increased Risk Sharing

Enforced Mobility

Multiple Careers

Employee Expectations ! ? !



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Environment...Social Security

Government Role: "What's Happening"

Social Programmes



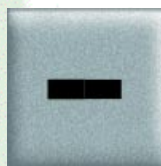
**Strain on
Spending**

Funding



**Most Systems
Unfunded**

Differences (Taxes)



**Affect International
Competition**

Problems!

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Environment...Social Security

Comparison of Systems

Built on
Trad.
Family

Balances
Equity/
Adequacy

Includes
Indiv.
Accounts

Includes
Means
Testing

Includes
Minimum
Benefit



Australia



Chile



Singapore



UK



US

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Environment...Social Security

Comparison of Systems

2 = Very Much
1 = Moderate
0 = None

Built on
Trad.
Family

Balances
Equity/
Adequacy

Includes
Indiv.
Accounts

Includes
Means
Testing

Includes
Minimum
Benefit



Australia

2

1

0

2

2



Chile

1

1

2

0

2



Singapore

1

1

2

0

0



UK

2

2

0

0

1



US

2

1

0

0

0

Employer Programme Designs Must Vary

Environment...Social Security

Changes to Systems

Many → Reduced Benefits

Some → Opt Outs

Some → Means Testing

Some → Individual Accounts

Employer Programme Design Should Change

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Environment...Social Security

Employer Concerns



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Global Retirement - Trends

- Considerations and Patterns
- Country Specifics

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Trends...Considerations & Patterns

External Influences



Market
Practice



Investment
Products

Legal
Structure

Labour
Influence

Culture

Social
Security
Structure

Tax
Structure



Investment
Markets



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Trends...Considerations & Patterns

Employment Relationship Changes



**Total
Remuneration
Emphasised**

**Away From
Lifetime
Employment**

**Rewards Linked
To Performance**

**Employee
Empowerment**

**More Employee
Stock
Ownership**

**More
Employee
Responsibility**

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Trends...Considerations & Patterns

Remuneration Drivers

**Globalisation
(Multibusiness
Enterprises)**



Competitiveness



**Risk
Awareness**



Regulation



**Pressure on
Government
Resources**

**Decline of
Social Security
Programmes**



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Trends...Country Specifics

Spectrum

**All State
Provided**

Mix

**Mix
(Option to
Contract Out)**

**All Co.
Provided**



Singapore



Canada



Japan



Hong Kong



Germany



UK



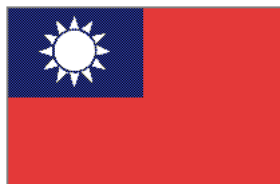
US

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Trends...Country Specifics - Types of Programmes

DB
Widespread

Mandatory



Taiwan

Discretionary



Japan



Germany

Mix
(DB more common)



Mexico



UK



Netherlands

Mix
(DC more common)



Australia



Hong Kong



Canada



US

DC
Widespread



France



Denmark

Millennium
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Trends...Country Specifics

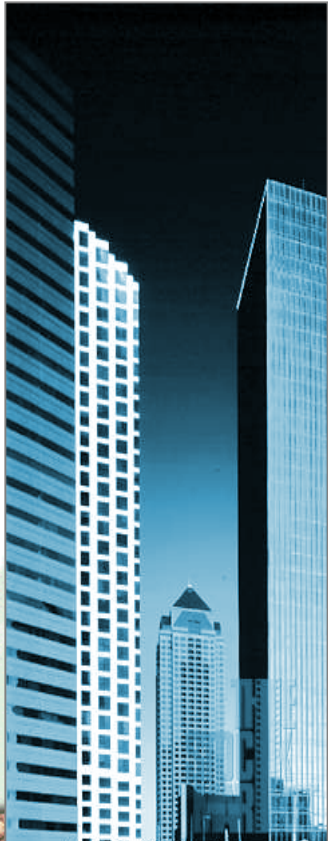


Australia

Characteristics

- **Mandatory Minimum Contribution**
- **Social Security Subject to Means Testing**
- **Typical Lump Sum: 6x Final Pay After Full Career**
- **Move Toward Employee Investment Choice**

**DB Prominent
Lump Sum
Payout**



Large

**Some DB
Most DC**



Mid-Size

DC



Small

Trends...Country Specifics

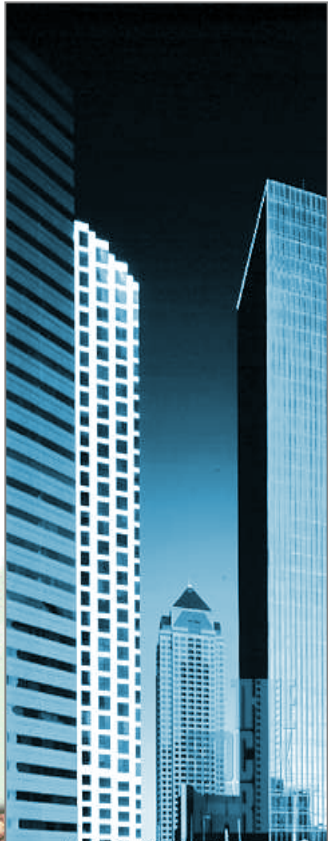


Canada

Characteristics

- Low Tax Qualified Programme Limits
- Supplementary Programmes Common (funded & unfunded)
- Ad Hoc Indexation Common
- Move Toward DC

Mainly DB
More DC



Large

Some DB
Some DC
RRSP



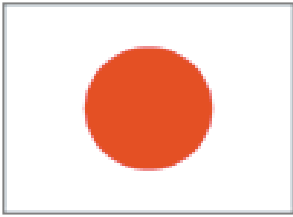
Mid-Size

DC or
RRSP



Small

Trends...Country Specifics



Japan



Large

DB--Lump Sum Payout

Characteristics

- Higher Benefits For Involuntary Termination
- Two-Tier Social Security
- Contracting Out Available for 500 Or More Employees
- Policy Issue: Making DC Tax-Effective



Mid-Size

DB--Lump Sum Payout



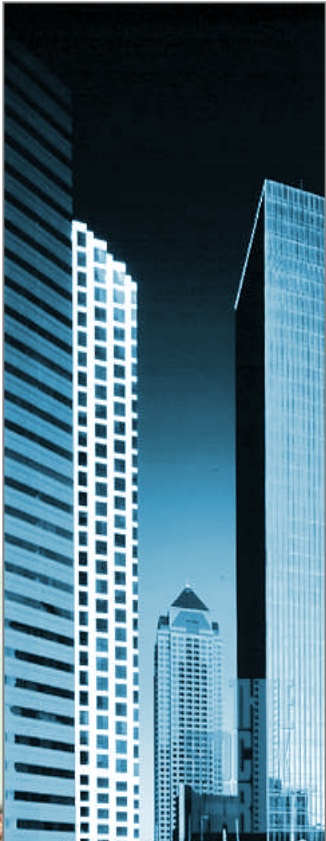
Small

DB--Lump Sum Payout

Trends...Country Specifics



Netherlands



Large

**Industry-Wide
Programmes
(DB)**

Characteristics

- Tax Effective Savings Growing in Popularity (Since Start in 1994)
- 1999 Legislation Will Encourage More Flexibility in Design
- Companies Can Opt Out of Mandatory Multi-Employer Programmes
- Decline of Early Retirement Subsidies
- Growth of DC Programmes



Mid-Size

**Some
Industry-
Wide (DB)
Some DC**



Small

DC

Trends...Country Specifics



UK



Large

**DB
Predominates**
**Contracted Out
of Social
Security
Second Tier**

Characteristics

- **Mandatory Indexation**
- **Individual Trustees**
- **Green Paper: Pension Reform Proposals**
 - **Overhaul of Social Security Second Tier**
 - **Stakeholder Pensions (mandatory DC for employers with no programmes)**



Mid-Size

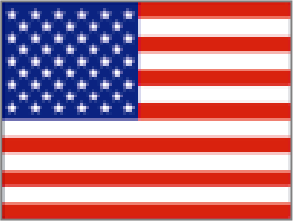
**Some DB
Some DC
Many
Contracted
Out**



Small

**DC or
None**

Trends...Country Specifics



US



Large

**Non
Contributory
Base (DB or DC)
Plus Matched
Savings**

**DC Assets
Growing**

**Many Offer
Retiree Health**

Cash Balance

Characteristics

- **Growth in Hybrids**
 - Cash Balance
 - Pension Equity
- **Shift to Lump Sum Payouts**
- **Supplementary Programmes for Executives Common**
- **Debate on Social Security Reform**



Mid-Size

DC Plans



Small

**No
Plans**

Trends

Australia/Pacific Rim

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Trends

Europe/United Kingdom

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Trends

Latin America

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Trends

United States

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US Retirement Trends

- Changing Patterns of Retirement
- Move to DC and Cash Balance
- Lump Sum Distributions
- Decline in Retiree Medical
- Recent Developments
 - EGGTRA Legislation
 - Enron - Implications for DC Plans
 - Social Security Reform
- Benefit Trends: Today and in the Future

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US Retirement Trends

Changing Patterns of Retirement

- Influences
 - Employer/employee relationship
 - End of mandatory retirement
 - Multiple careers/bridge jobs
 - Lump sums
- Plans Becoming More Age Neutral
 - Defined benefit hybrids
 - Decrease in defined benefit early retirement subsidies
 - Shift to defined contribution
 - Changes to Social Security
- Are Benefit Structures and Lump Sums Driving Retirement?

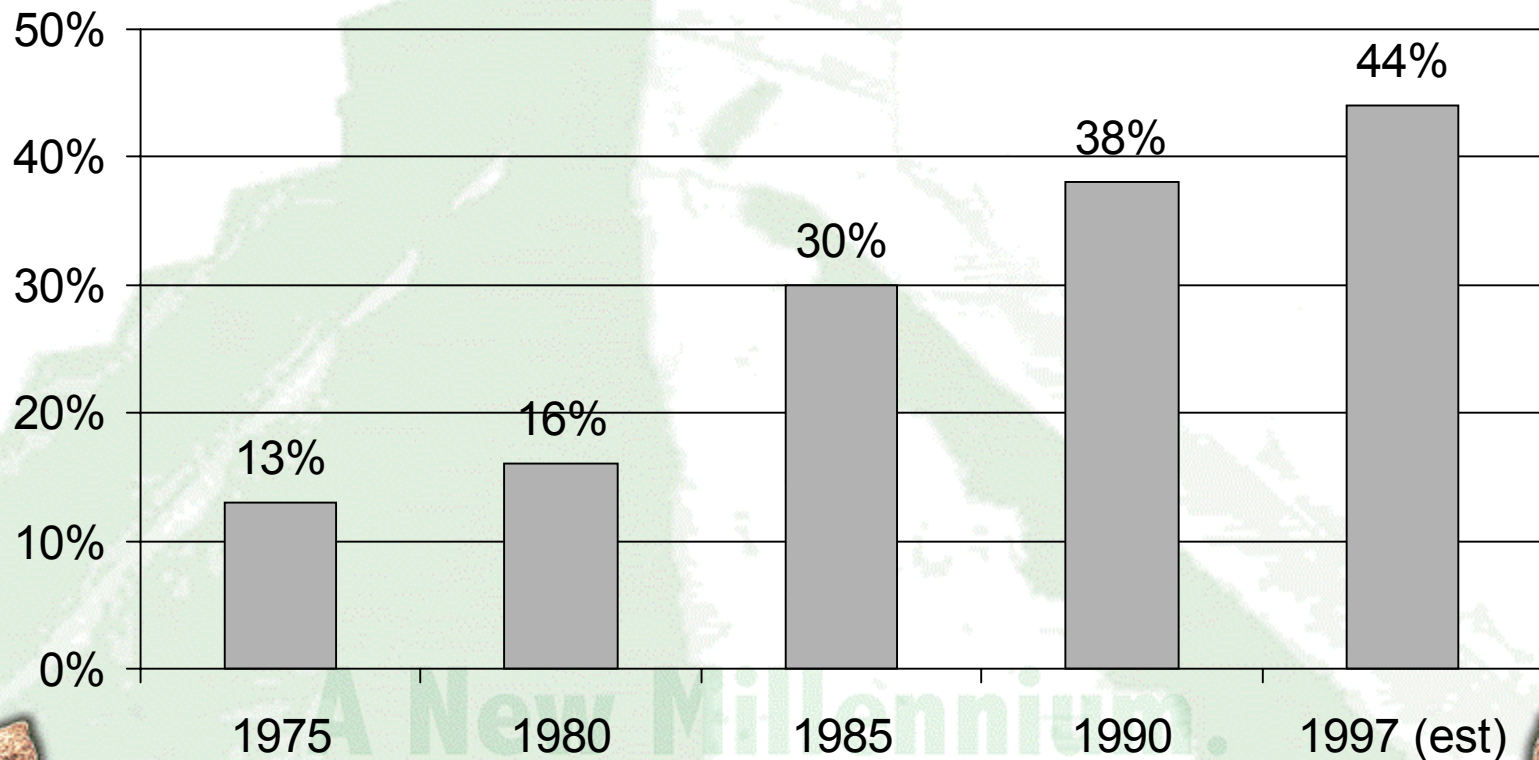
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US Retirement Trends

Trend Toward DC Plan Participation

Percentage of Active Pension Participants whose Primary Plan is a DC Plan



Source: Olsen and VanDerhei, 1997.

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US Retirement Trends

Individual Benefit Trends Retirement

DB and DC Plans	1995	1996	1997	1998	1999	2000
Both DB and DC Plans	74%	73%	74%	71%	67%	64%
DB only	3%	3%	2%	2%	1%	1%
DC only	21%	23%	24%	27%	32%	35%
Unknown	2%	1%				

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US Retirement Trends

Individual Benefit Trends Retirement

Distribution of DB Plans by % of Plans	1997	1998	1999	2000
Final Average	74%	68%	65%	65%
Career Average	9%	9%	8%	7%
Career Average with Upgrade	4%	4%	4%	3%
Cash Balance	7%	12%	14%	15%
Service Credit	5%	6%	7%	7%
Retirement Equity	1%	2%	2%	3%

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Availability of Lump Sums

- DC plans - nearly universal
- Cash balance plans - majority use
- Conventional plans
 - More offer options
 - When offered - 80% + select

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US Retirement Trends

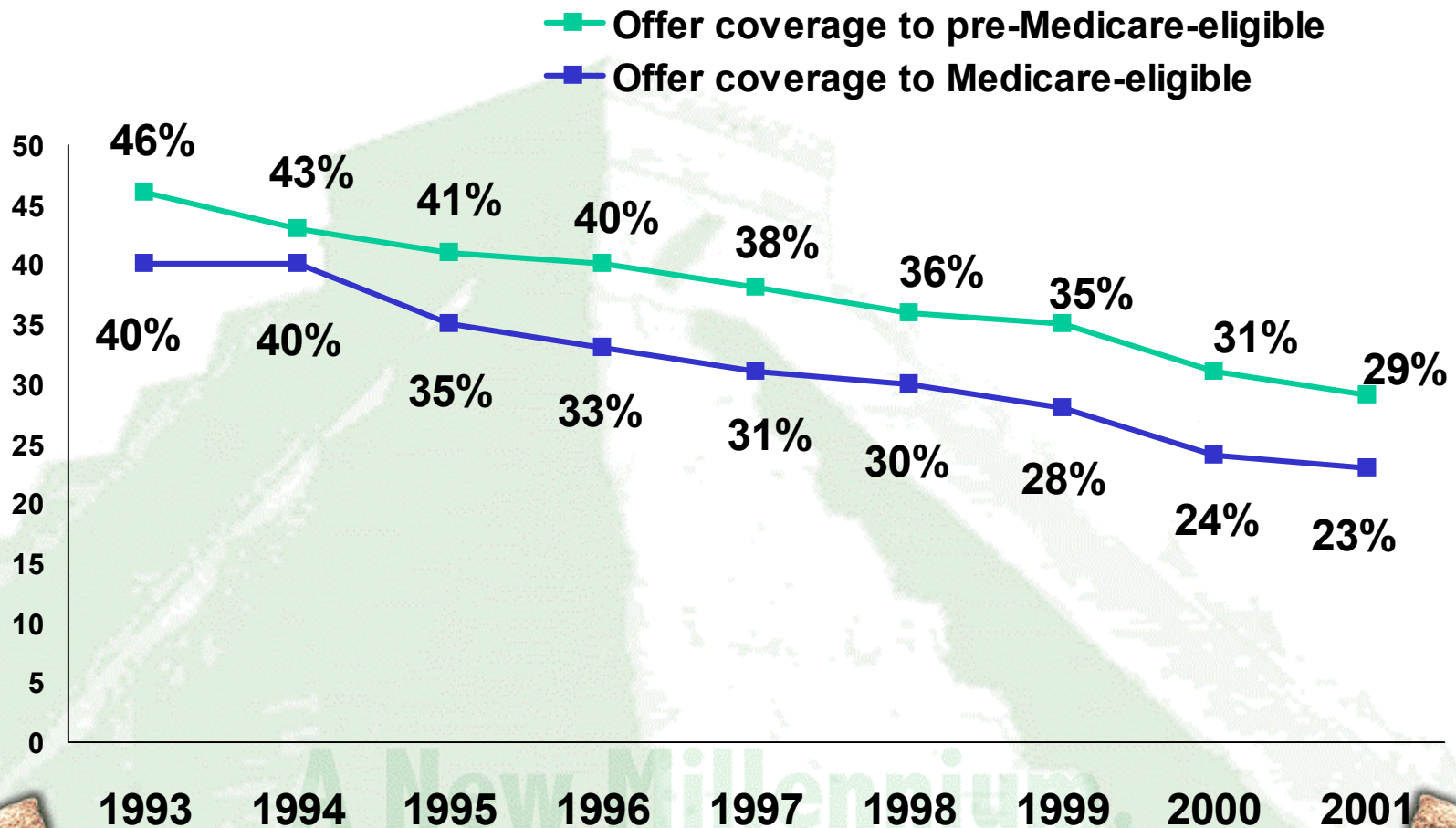
Findings from 1996 Retirement Confidence Survey Uses of Lump Sum Distributions

- Spent it (leakage) - 50%
- Rolled over at least a part into another retirement plan - 46%
- Put it into another savings - 27%
- None of these - 3%

Note: Lump sums can be distributed to multiple uses.

US Retirement Trends

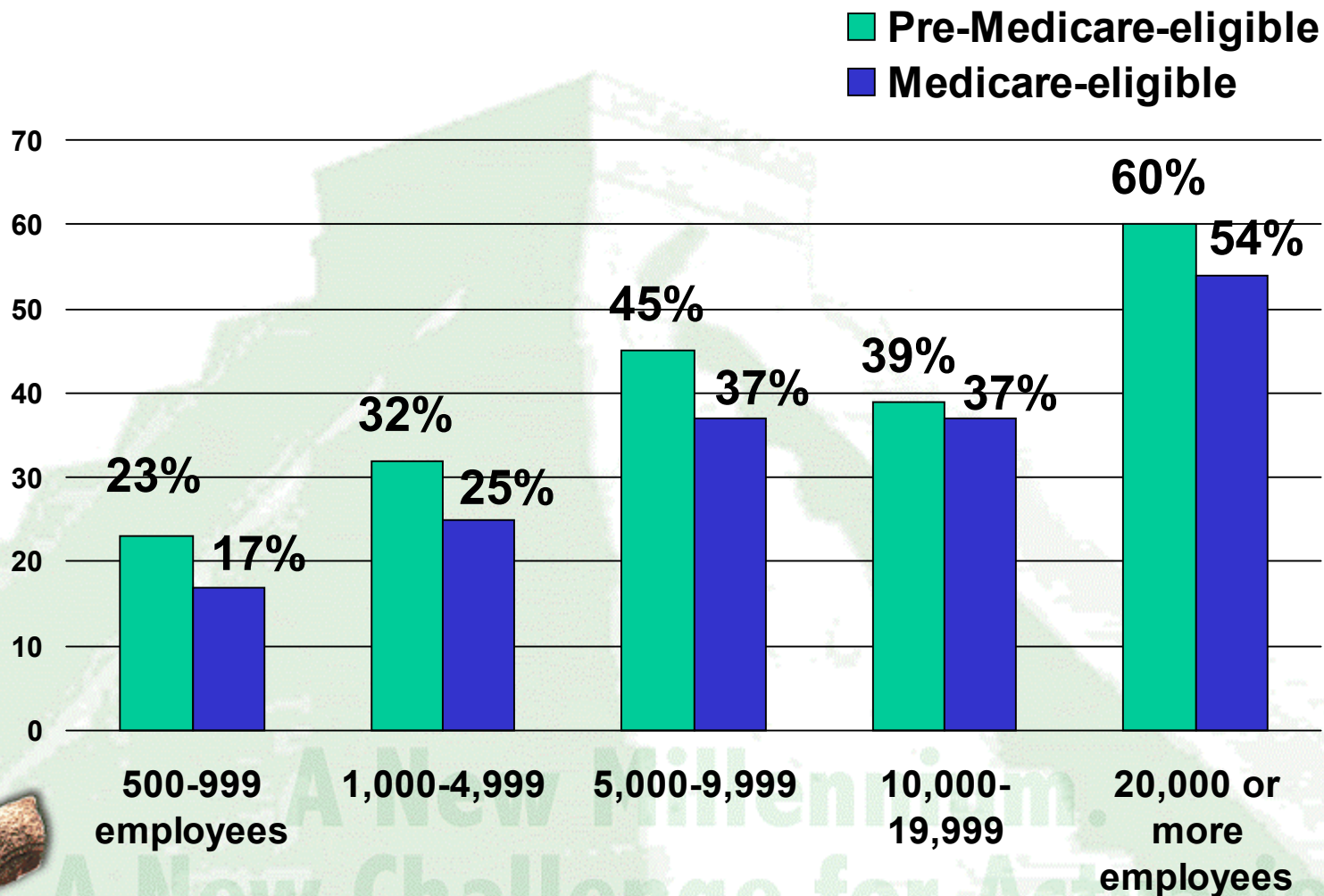
Decline in Retiree Medical



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US Retirement Trends

Decline in Retiree Medical



US Retirement Trends

Recent Developments - EGGTRA Legislation

- Enhanced Defined Contribution Plan Features
- Increased Compensation Spending Limit for Benefit Accruals to \$200,000 (indexed)
- Increased Employee Pre-tax Salary Reduction Contribution Limits to \$15,000 (indexed)
- Added “Catch-up” Contributions (\$5,000 - indexed) for Employees Age 50 and Older
- Expand Plan Portability
- Increased Maximum Contribution Limits to \$40,000 (indexed), 100% of Compensation

Issue: Disclosure and diversification

US Retirement Trends

Recent Developments - Enron

- Proposed Legislation for Defined Contribution Plans
 - Investment advice
 - Earlier diversification of employer stock
 - Disclosure to plan participants
 - “Black-out” periods
 - Investment limitations on employer stock
 - Fiduciary communications

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US Retirement Trends

Recent Developments - Social Security Reform

- Long-Term Solvency Issues
- The Debate - What is Social Security?
 - Retirement Plan
 - Social Insurance
 - Wealth Accumulation/Investment Account
- Commission to Strengthen Social Security
 - Recommendations allow younger workers to invest a portion of their payroll taxes in the stock market
 - Benefit reductions and retirement age increases

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US Retirement Trends

Today and in the Future

- Shift to account approaches
- More focus on lump sums
- Portability important
- Growth of bridge jobs
- More focus on total package
- Increased employee awareness
- Planning tools are developing
- Emphasis on phasing out
- Legislative changes
- More sophisticated Web enabled planning
- More focus on use of assets
- Nearly all benefits communicated as lump sums
- Stock related programs with retirement