

# EBRI Policy Forum

## Assessing Future Retirement Security

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# Trends in Retirement Security

- Decrease in Prevalence of Defined Benefit Plans as the Primary Source of Retirement Income
- Low Interest Rates Make Lump Sum Distributions from DB Plans The Most Frequent Election (when available)
- Cash Balance Plan Benefits are Ideally Suited for Portability via Roll-Over to an IRA Upon Separation
  - Thereby Increasing IRA Balances
- Defined Contribution Plans are Increasingly Playing an Important Role in Providing Retirement Income
  - In Spite of This Trend, Participation in 401(K) Plans Has Decreased Over the Last Two Years
    - 3.6% Decline in 2003
    - 2.5% Decline in 2002

# Trends in Retirement Security

- DC Plans and Rollover IRA's and Increasing the Self Management of Retirement Funds
  - At a Time When Equity Markets Are Exhibiting Increased Uncertainty
- Retiree Medical Benefits are Being Eliminated or Dramatically Redesigned to Reduce Coverage
  - As Retiree Medical Costs are Increasing at Double Digit Rates
- Employees Have Difficulty Accurately Estimating Longevity and Savings Needed for Retirement
  - Increased life expectancy increases the risk of outliving one's savings

# Key Labor Force Issues

- Increasing shift to knowledge work
  - Less physical labor and potentially longer working careers
- Increased life expectancy and interest in continued engagement
  - Part-time work or volunteerism
- Declining pipeline of US labor
  - Political backlash against off-shoring of jobs
  - Reduction in HB1 visas
  - Retention of experienced talent may become an issue
- Decreased union representation
  - Unionized employees have historically enjoyed more generous benefit coverages
  - In recent collective bargaining agreements unions have struggled to protect benefit coverages, especially for retirees

# Employment Policy Implications

- Education of workers to better prepare for managing retirement distributions
  - Online modeling
  - Access to expert advice
    - 43.5% of employers offer investment advice to 401(K) participants
- Encourage increased savings at younger ages
  - Consider increased match during the early career with longer vesting schedule
  - Introduce retirement savings/planning into new employee orientation programs
- Increased lobbying to reduce barriers to tailoring benefits for differential groups of employees
  - Differentiated benefits based on age at retirement (e.g., General Dynamics Land Systems v Cline)
  - Increased funding vehicles for retiree health costs
  - Increased flexibility in retirement/savings plan design

# Employment Policy Implications

- Revisit early retirement subsidies
  - Do such subsidies still make sense?
  - Significant cost item for most DB plans
- Traditional definition of “normal retirement” needs to be revised
  - Alignment with changes in Social Security retirement age
  - Provide incentives to work beyond age 65
  - Explore phased-retirement programs
- Provide additional education on key voluntary retirement benefits
  - Long-term care
  - Increased 401(k) plan participation and increased rates of saving
    - Online modeling and gap analysis of retirement expenses vs. expected savings and retirement income
  - Additional educational programs for early to mid-career employees -- not merely for those nearing retirement
- Devise new approaches to align employees with shareholders
  - Stock option participation is being reduced
    - Special accounting/tax treatment for “retirement shares/options”?
  - Stock-based match in 401(k) plans are being reduced or eliminated