

# A Survey of the Retirement Landscape

**Brian Goddu, FSA**

Senior Consulting Actuary

The McKeogh Company

Conshohocken, Pennsylvania

**Emily Lucini, FSA**

Consulting Actuary

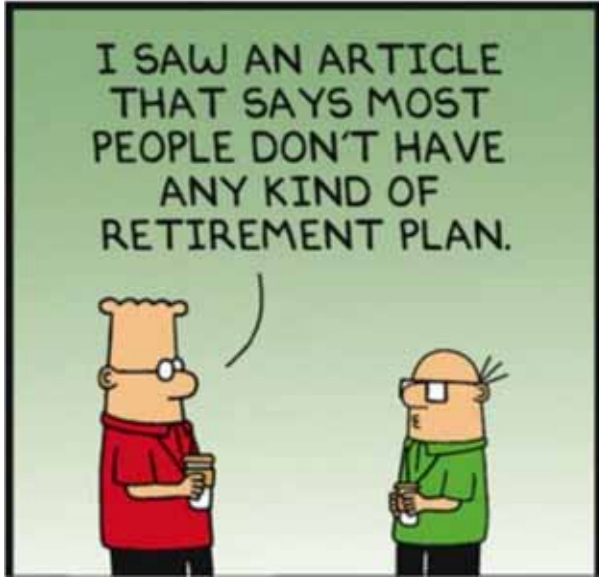
The McKeogh Company

Conshohocken, Pennsylvania

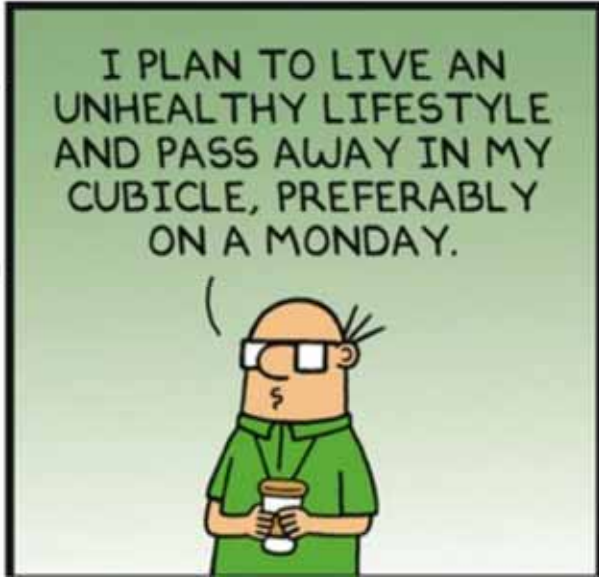


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# Purpose

- Define and highlight the impact of longevity risk on retirement
- Outline the different ways each generational cohort views/approaches retirement
- Discuss the economic challenges facing current and future retirees

# Agenda

- **Part I:** Retirement, Longevity and Generational Differences
- **Part II:** The Economic Stability of the “Three-Legged Stool”
  - Government Benefits
  - Employer Sponsored Plans
  - Personal Savings
- **Part III:** Key Takeaways
- **Part IV:** Questions/Discussion

# **Part I—Retirement, Longevity and Generational Differences**

## Polling Question

How many years from today do you expect to retire?

- A. Less than 5 years
- B. Between 5 and 15 years
- C. Between 15 and 25 years
- D. More than 25 years

# Societal Role of Retirement

- Retirement serves a critical societal purpose
  - Allows older generations a chance to pursue other less-strenuous activities/hobbies
  - Allows younger generations an opportunity for growth
- Retirement is one of the main phases of a working lifetime

Birth → Enter Workforce → Work/Save → Retire → Haunt the Living

# What Is Longevity Risk?

- Increased life expectancy = Greater longevity
- How is this a risk?
- Who bears this risk? Payer vs. Payee
- Defined benefits vs. Defined contributions



# How Is This a Problem?

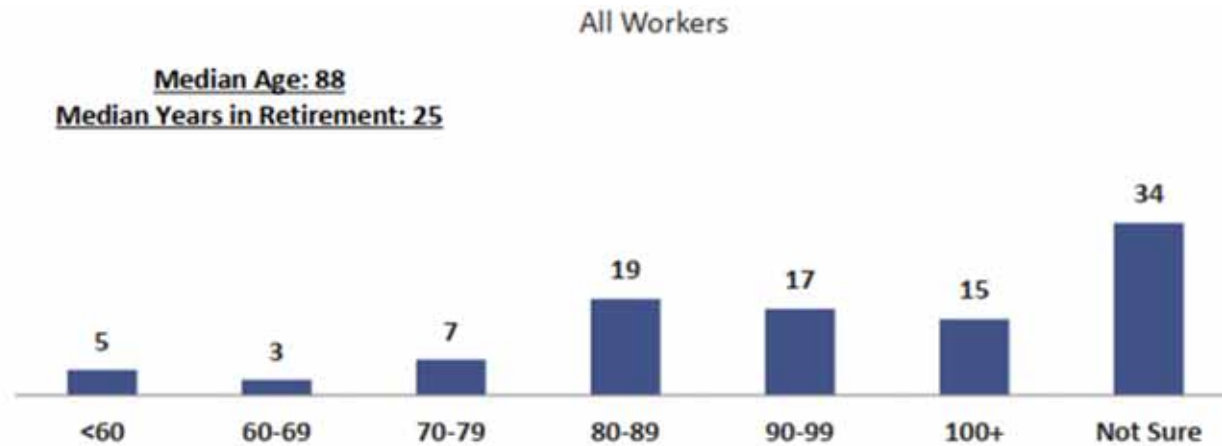
- Longer periods in retirement
  - Incur costs over a longer period
  - Need money to last longer
- Increased costs
  - Need money for more reasons at higher costs
  - Inflation
- Downstream effects
  - Can delay retirement (disrupt the conveyor belt)
  - Caregiving for elderly parents/grandparents

## Polling Question

How many years do you expect to spend in retirement?

- A. Less than 10 years
- B. Between 10 and 20 years
- C. Between 20 and 30 years
- D. More than 30 years

# What Age Are You Planning to Live to? (%)



Source: Transamerica Center for Retirement Studies, 24<sup>th</sup> Annual Transamerica Retirement Survey of Workers

## Longevity Improvements and Retirement Trends

- People living longer today on average than at any time in history
- Requires people plan for a longer retirement
- Retirement Savings must last longer
- Increases the popularity of phased retirements, which has a downstream effect on future retiree cohorts

## Polling Question

Which generation do you belong to?

- A. Born 1928 to 1945 (Silent Generation)
- B. Born 1946 to 1964 (Baby Boomers)
- C. Born 1965 to 1980 (Gen X)
- D. Born 1981 to 1996 (Millennials)
- E. Born 1997 to 2012 (Gen Z)
- F. Born after 2012 (Gen Alpha)

# Boomers

- Nearing traditional retirement ages as the Great Recession was beginning
- Were mid-career when the retirement landscape began shifting from DB towards DC plans
- Began saving for retirement at 35 (median)
- 9% believe they will live to be 100 or older
- On average expect to spend 20 years in retirement

# Generation X

- DC plans were still relatively new when they entered the workforce
- Contribute 10% (median) of wages to 401(k)
- Began saving for retirement at 30 (median)
- 12% believe they will live to be 100 or older
- On average expect to spend 24 years in retirement

# Millennials

- Entered the workforce in the lead up to the Great Recession of 2008/09
- Contribute 10% (median) of wages to 401(k)
- Began saving for retirement at 25 (median)
- 18% believe they will live to be 100 or older
- On average expect to spend 25 years in retirement



# Generation Z

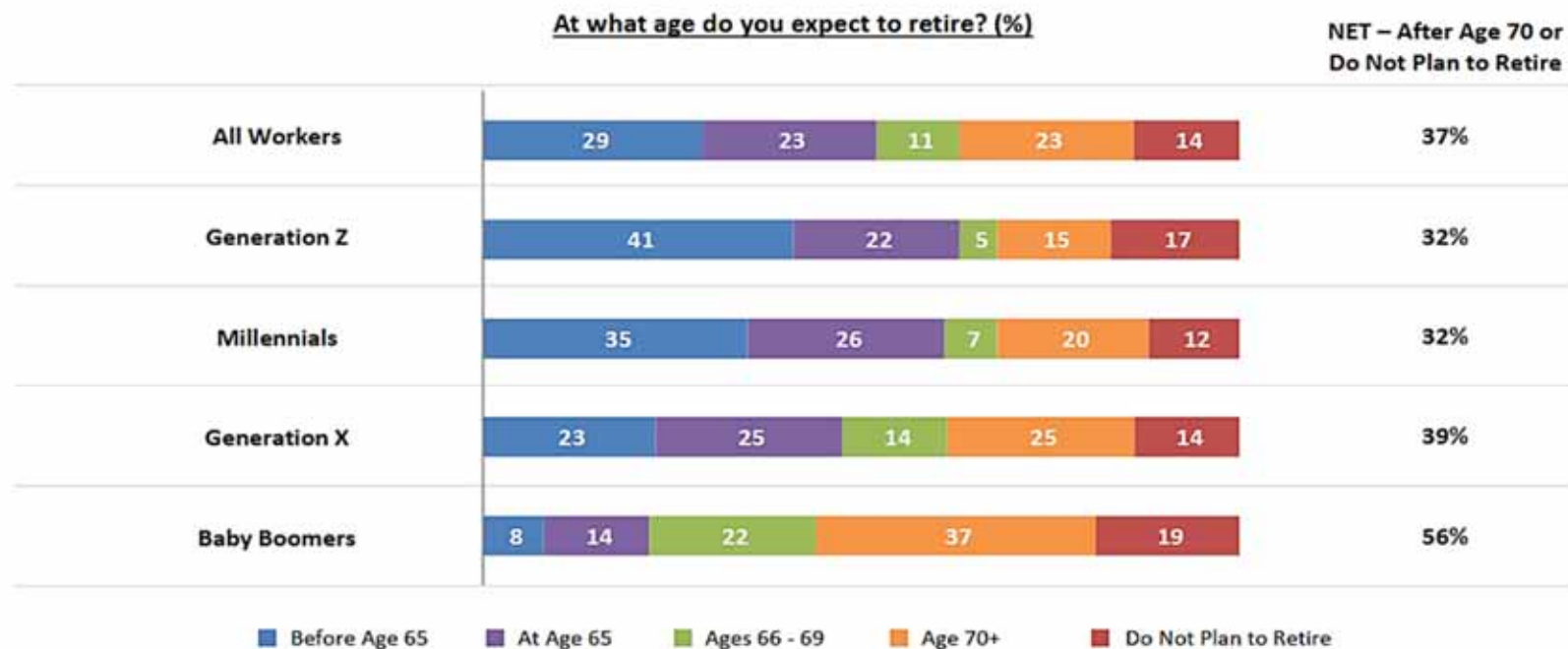
- Began entering workforce right before a global pandemic (COVID-19)
- Decades away from retirement
- Contribute 15% (median) of wages to 401(k)
- Began saving for retirement at 20 (median)
- 18% believe they will live to be 100 or older
- On average expect to spend 30 years in retirement

## Polling Question

At what age do you expect to retire?

- A. Before Age 65
- B. At Age 65
- C. Ages 66-69
- D. Age 70+
- E. Do not plan on retiring

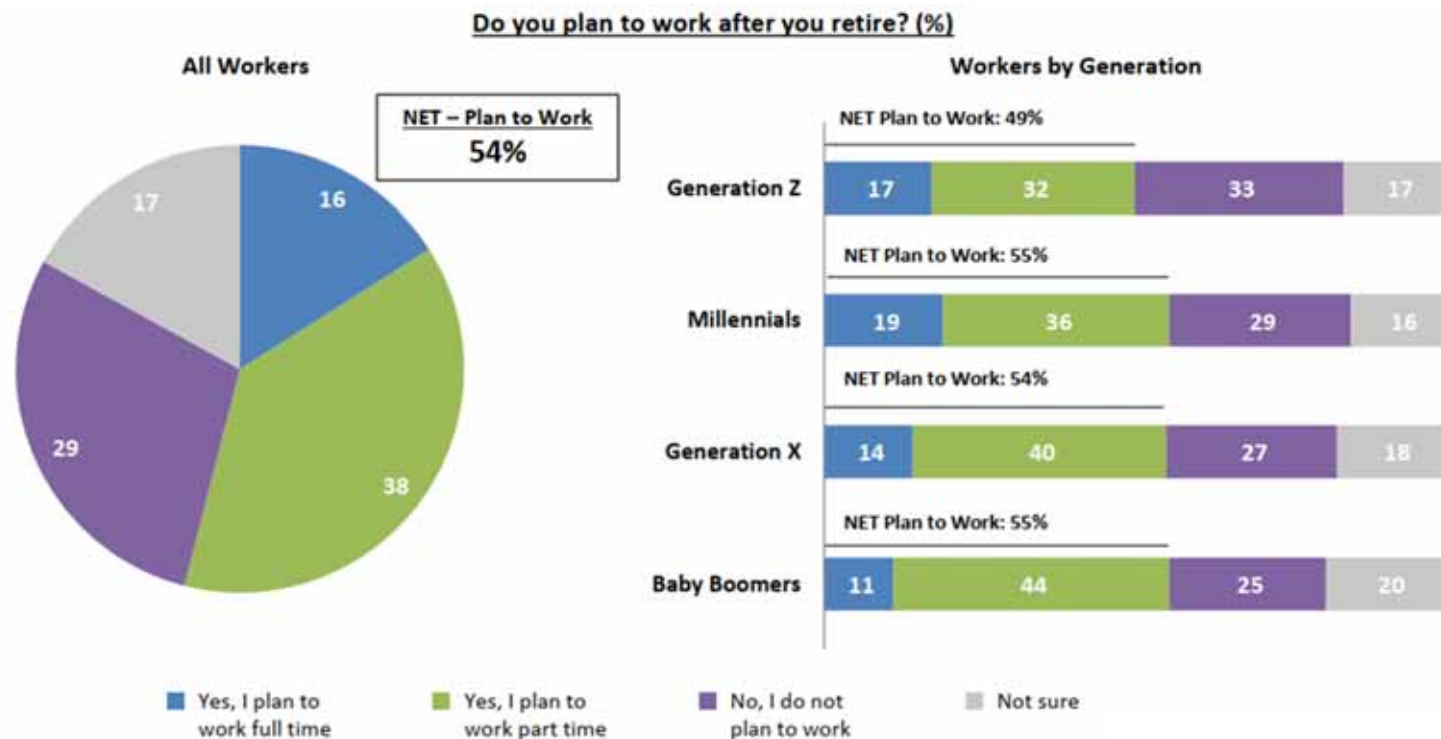
# At What Age Do You Expect to Retire? (%)



*Note: Results may not total 100% due to rounding.*

Source: Transamerica Center for Retirement Studies, 24<sup>th</sup> Annual Transamerica Retirement Survey of Workers

# Do You Plan to Work After You Retire? (%)



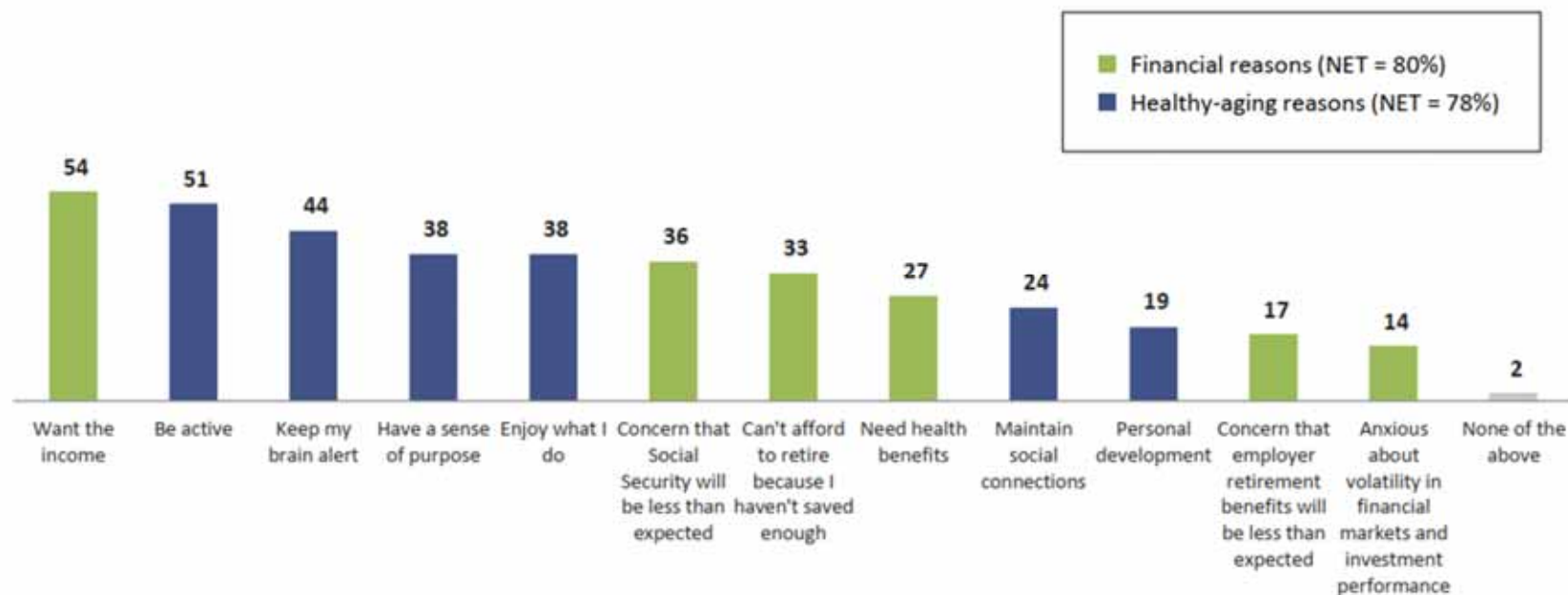
*Note: Results may not total 100% due to rounding.*

Source: Transamerica Center for Retirement Studies, 24<sup>th</sup> Annual Transamerica Retirement Survey of Workers

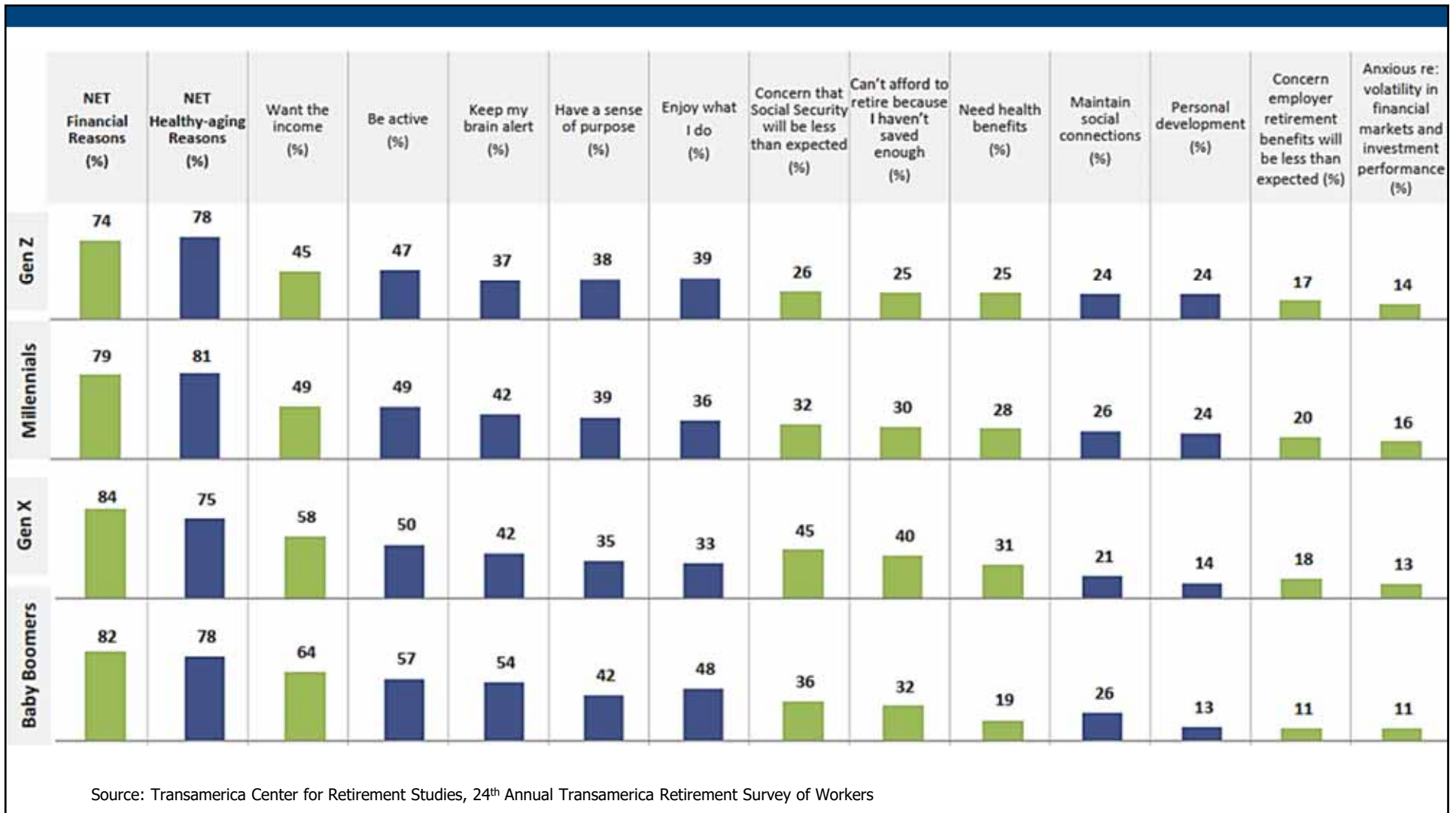
# What Are Your Reason(s) for Working in Retirement or Past Age 65?

What are your reason(s) for working in retirement or past age 65? Select all. (%)

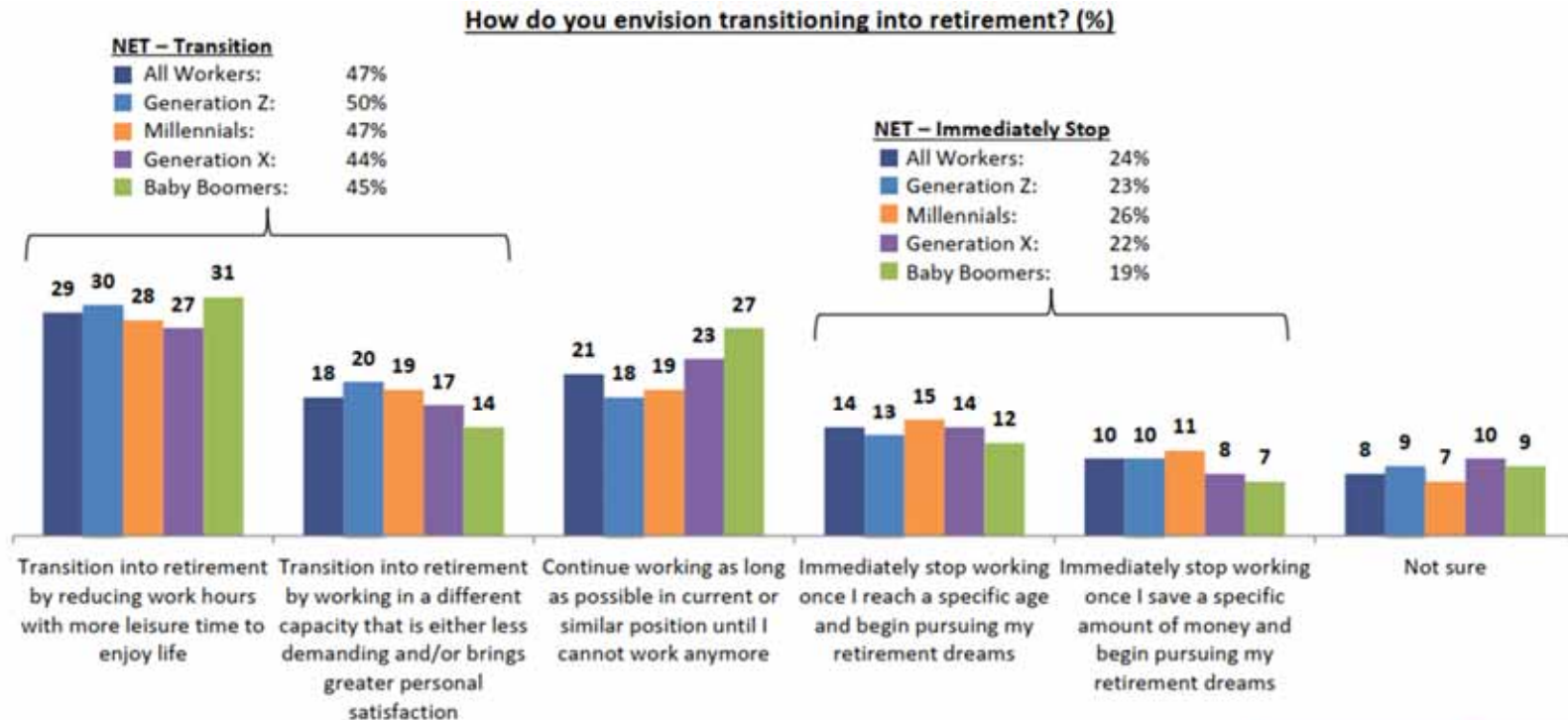
All Workers



Source: Transamerica Center for Retirement Studies, 24<sup>th</sup> Annual Transamerica Retirement Survey of Workers



# How Do You Envision Transitioning Into Retirement? (%)



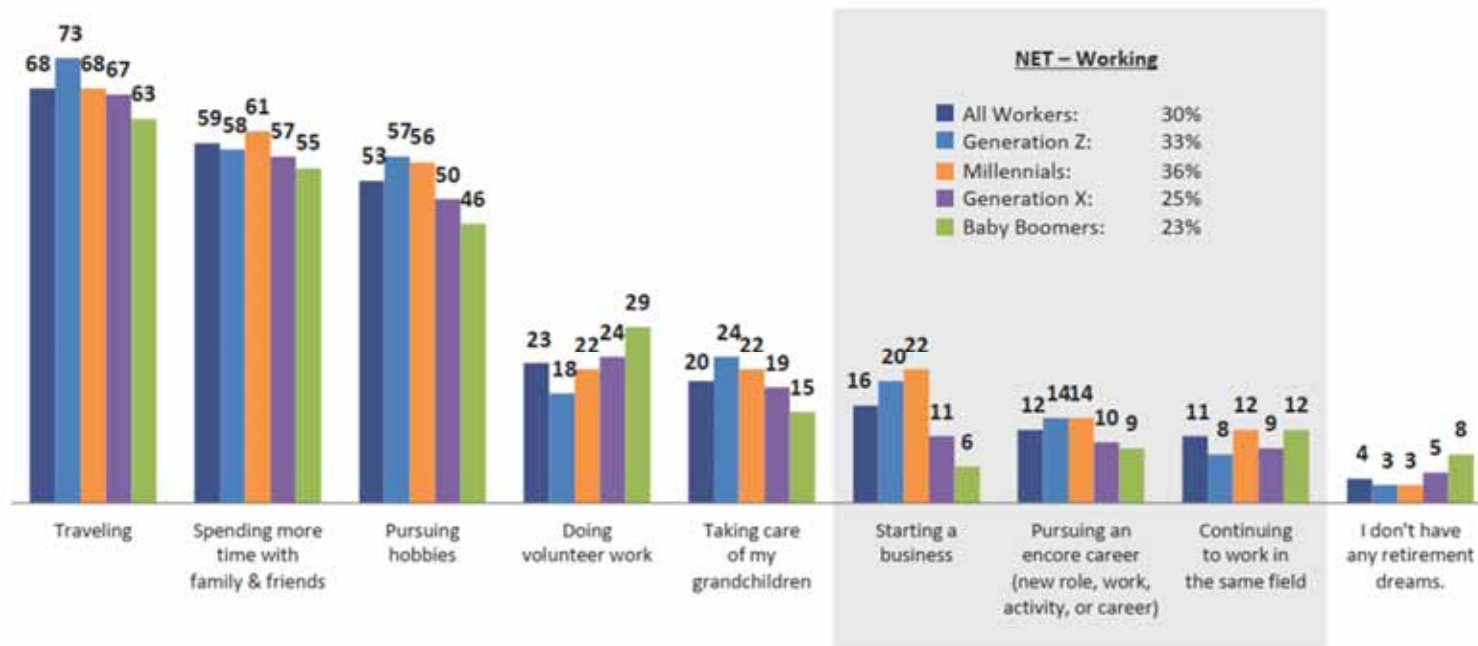
Note: Results may not total 100% due to rounding.

WORKER BASE: 24TH ANNUAL SURVEY - ALL QUALIFIED RESPONDENTS  
 Q1545. How do you envision transitioning into retirement?

Source: Transamerica Center for Retirement Studies, 24<sup>th</sup> Annual Transamerica Retirement Survey of Workers

# How Do You Dream of Spending Your Retirement? Select All. (%)

How do you dream of spending your retirement? Select all. (%)



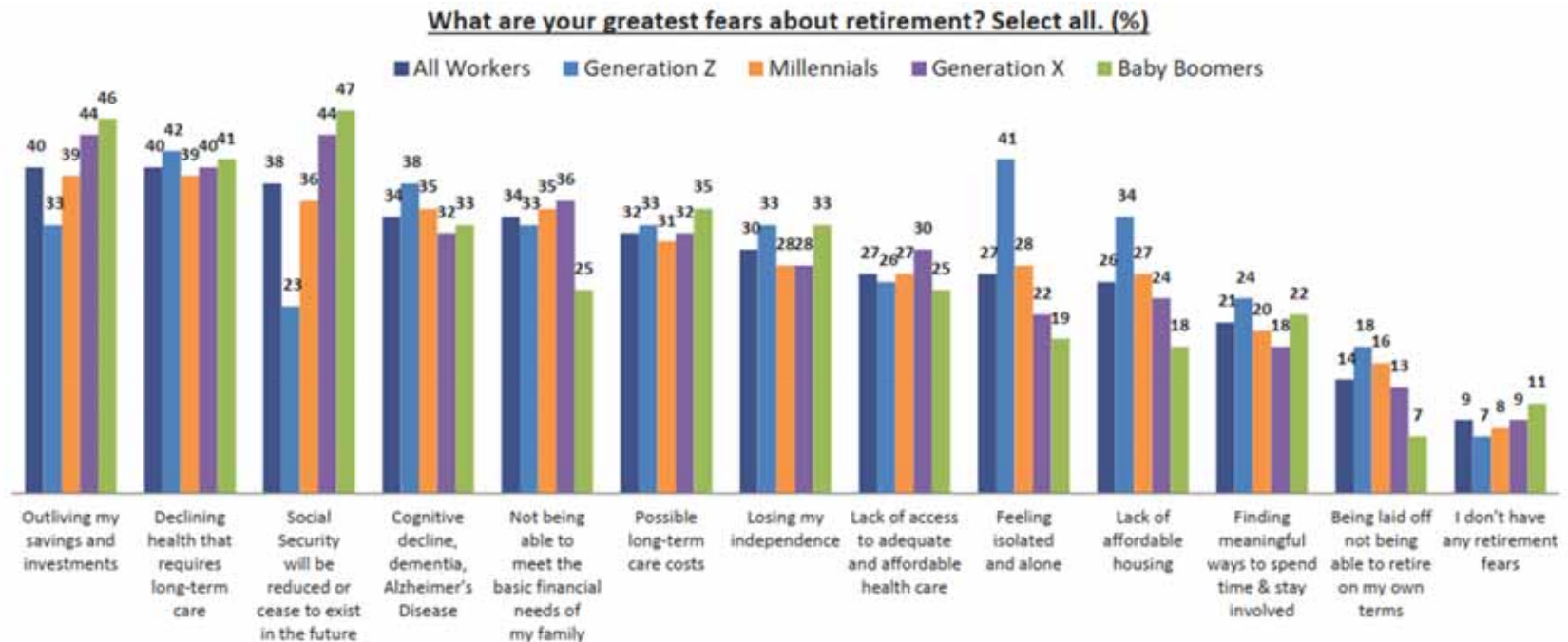
Note: Responses not shown for "Other" (All Workers: 1%, Generation Z: 1%, Millennials: 1%, Generation X: 2%, Baby Boomers: 2%).

WORKER BASE: 24TH ANNUAL SURVEY - ALL QUALIFIED RESPONDENTS  
 Q1418. How do you dream of spending your retirement? Select all.

Source: Transamerica Center for Retirement Studies, 24th Annual Transamerica Retirement Survey of Workers



# What Are Your Greatest Fears About Retirement? Select All. (%)



Note: Responses not shown for "Other" (All Workers: <1%, Generation Z: <1%, Millennials: <1%, Generation X: <1%, Baby Boomers: 1%).

WORKER BASE: 24TH ANNUAL SURVEY - ALL QUALIFIED RESPONDENTS

Q1422. What are your greatest fears about retirement? Select all.

Source: Transamerica Center for Retirement Studies, 24<sup>th</sup> Annual Transamerica Retirement Survey of Workers

# Generational Differences (Big Picture)

- Desires remarkably similar, circumstances are different
- Each generation faces different immediate challenges
- No generation better or worse than others
- Signs for hope; progress being made

# Economic Impacts

- Maturity Ratio—Ratio of the number of retirees per active workers supporting those retirees
- Phased retirement
  - Longer working lives contribute to economic growth and extra tax revenue
  - Strains on social safety nets and less room for lower-level employees to “move up the ladder”

# Economic Impacts

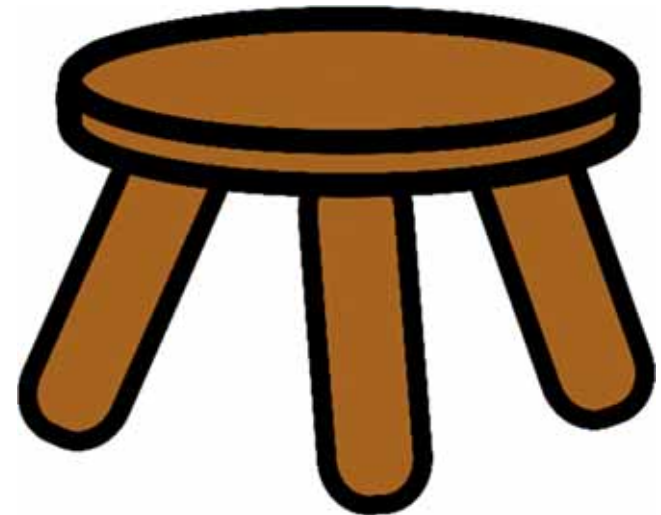
Country	Percent Employed by Age			
	Ages 55–59	Ages 60–64	Ages 65–69	Ages 70+
United States	66%	43%	20%	5%
Denmark	77%	35%	9%	3%
United Kingdom	69%	40%	10%	2%
Switzerland	77%	46%	7%	2%
Norway	74%	33%	7%	1%
Greece	65%	18%	4%	0%
Germany	61%	23%	3%	0%
Netherlands	53%	22%	3%	0%
France	51%	12%	1%	0%
Spain	46%	22%	0%	0%

Source: Organisation for Economic Co-operation and Development (OECD)

# **Part II—The Economic Stability of the “Three-Legged Stool”**

# The 3-Legged Stool

- Income sources during retirement
  - Government benefits (US social security)
  - Employer sponsored plans
  - Personal savings



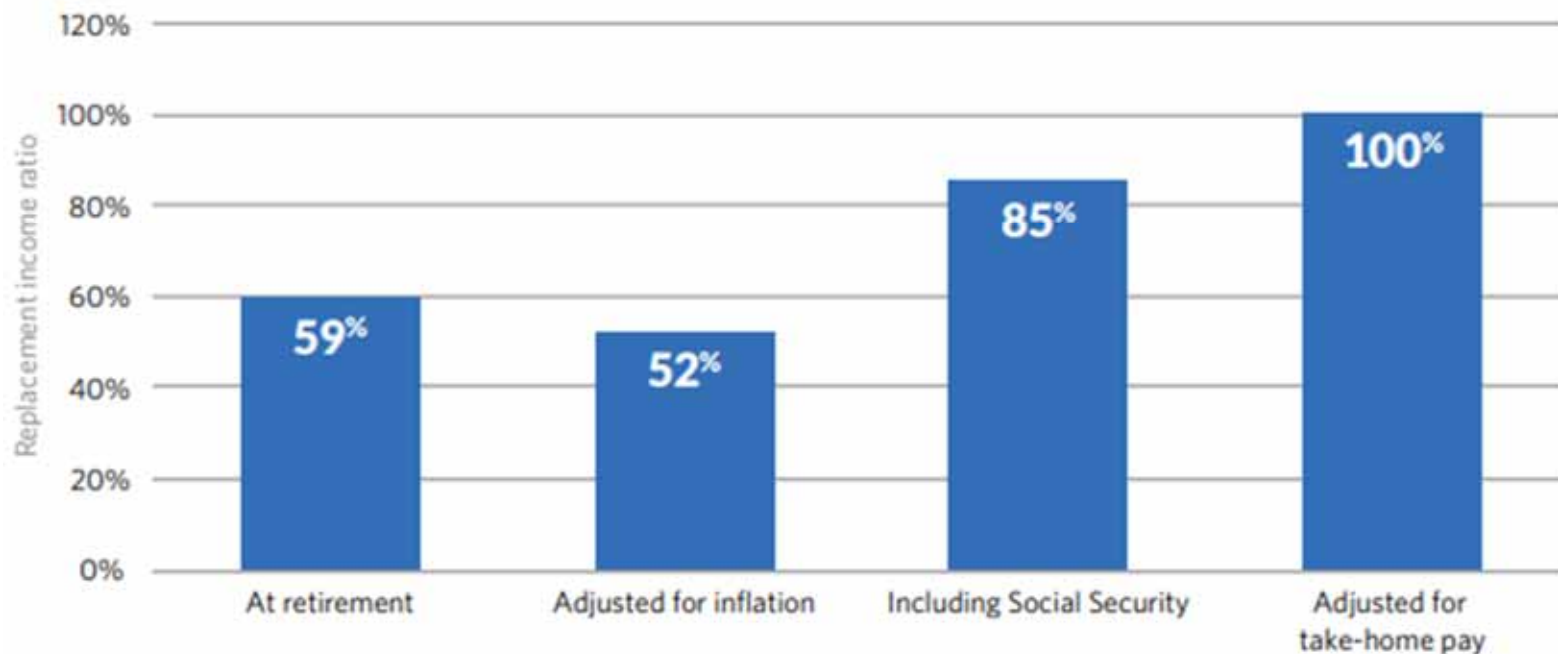
# Replacement Ratio

- Percentage of pre-retirement income needed from 3 legs
- General goal: 75-85%
  - Lower expenses
  - Children grown
  - No debt
  - No longer saving for retirement
  - Total vs. Take-home pay

# Sample Replacement Ratio—DB

## Expected Replacement Income for a Career Worker Under a Sample Defined Benefit Plan

Retirement benefit exceeds worker's take-home pay





# Replacement Ratio—Considerations

- Rising medical costs
- Increased health premiums
- Future tax increases
- Standard of living

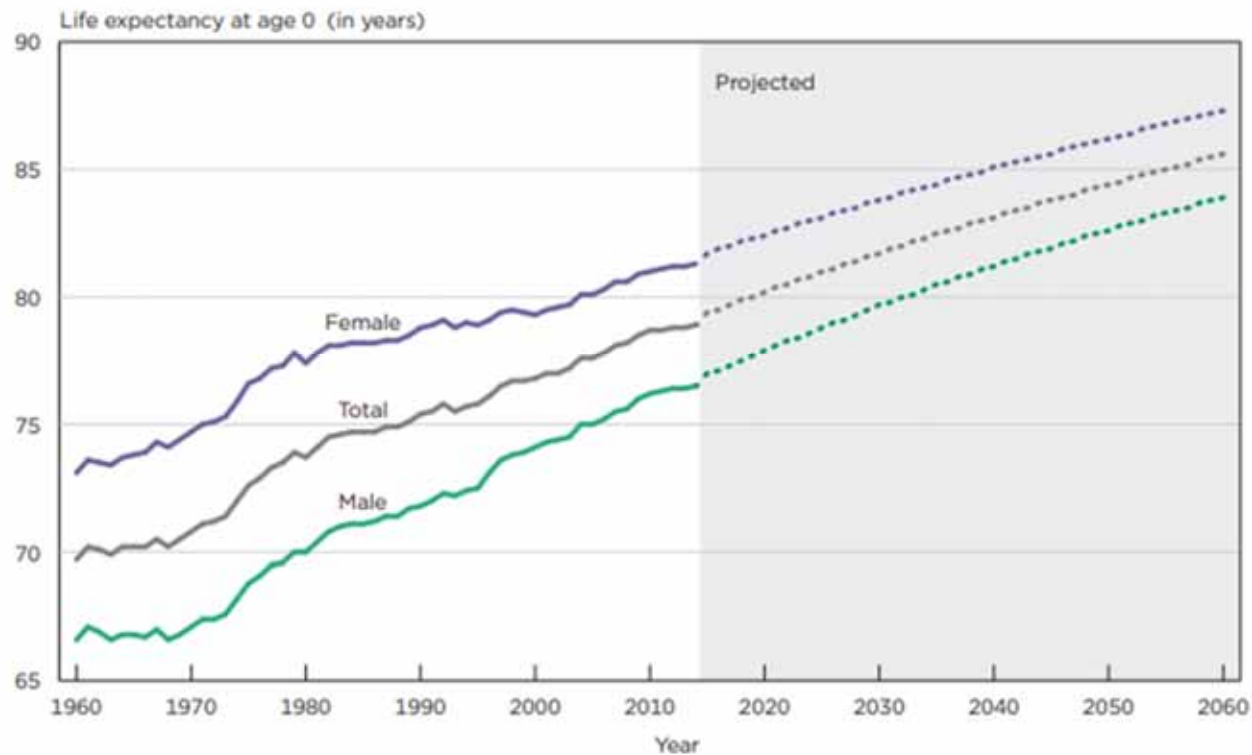
# Leg 1—US Social Security

- Established in 1935
  - Retirement Age of 65
  - Life expectancy\*: 78 for men, 80 for women
- 1983—law passed to gradually increase retirement age to 67
  - Fully phased in 2027
  - Life expectancy today\*: 85 for men, 88 for women

\*Based on remaining life expectancy assuming survival to SS Ret Age

# US Life Historical and Projected Life Expectancy

Historical and Projected Life Expectancy for the Total U.S. Population at Birth: 1960-2060



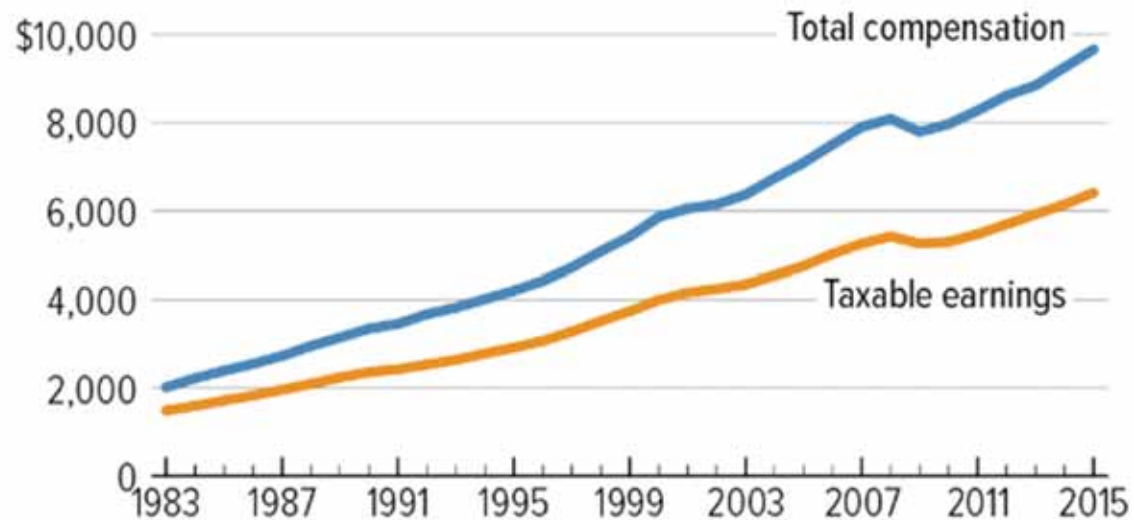
## How Are Other Countries Approaching This Same Problem?

- France
  - Increase from 62 to 64 in 2023
- China
  - Increase from 60 to 63 for men, from 50 to 55-58 for women
  - Phase in over 15 years starting in 2030
- Netherlands
  - Gradual increase from 65 to 67 by 2024, 69 by 2057

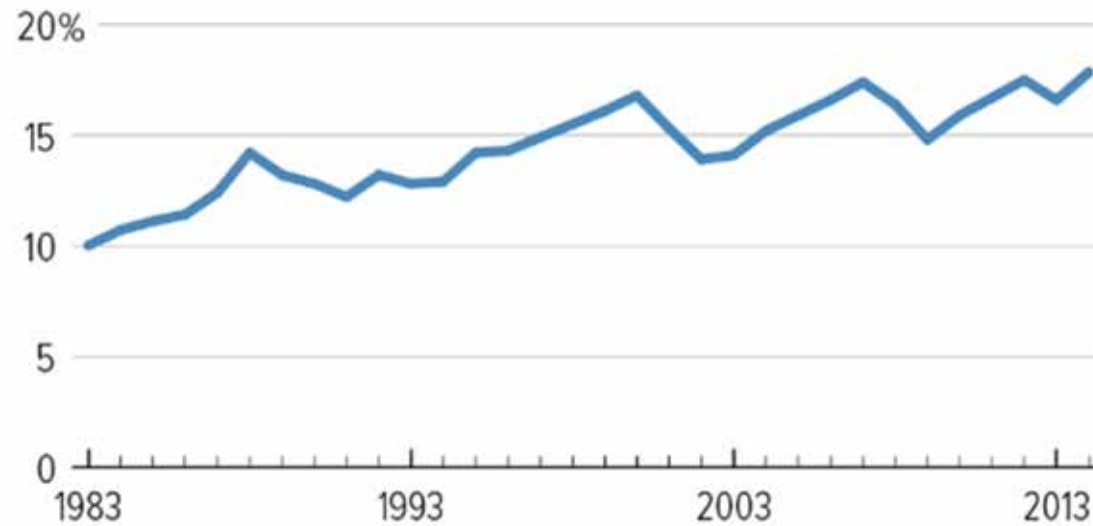
# Challenges Facing US Social Security

- Maturity Ratio: 3.4 in 2000, 2.4 by 2033
- Trust fund projected to run out in 2035
- 83% of scheduled benefits payable in 2035, shrinking to 73% by 2098
- SS beneficiaries living in poverty projected to increase by 50% in 2035
- Taxable earnings has not grown proportionately to total compensation

# Social Security Tax Base vs. Total Compensation



## Percentage of Earnings Above SS Payroll Tax Cap



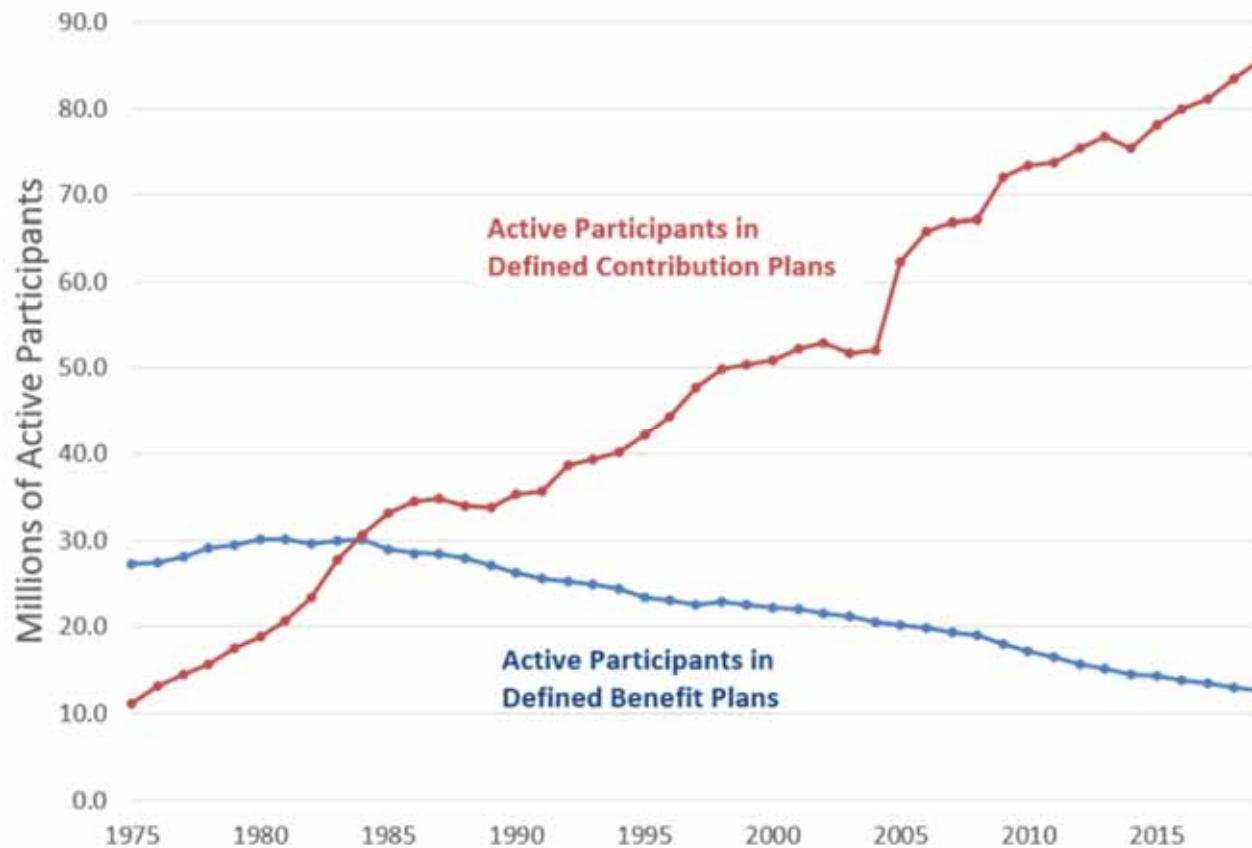
## Leg 2—US Private Plans—Shift From DB to DC

- Number of U.S. workers with a defined benefit plan
  - 1975—88% of all workers
  - 2018—17% of all workers
- 2018 details

2018 Access	DB plans Only	DB + DC	DC Plans Only	No Access
All workers	4%	13%	51%	32%
Union workers	34%	34%	24%	8%



# Active Participants in Private-Sector Pension Plans



## Shift From DB to DC—Effect on Participants

- Advantages
  - Control over funding, investing and withdrawing
  - Portable
- Challenges
  - Longevity and investment risk with participant
  - Cost to annuitize

## DB Plans With DC Characteristics— Cash Balance Plans

- Hypothetical account balance
- Balance increases
  - Pay credit
  - Interest credit
- 22,657 in US in 2020—15x increase from 2000

## DB Plans With DC Characteristics— Variable Annuity Pension Plans

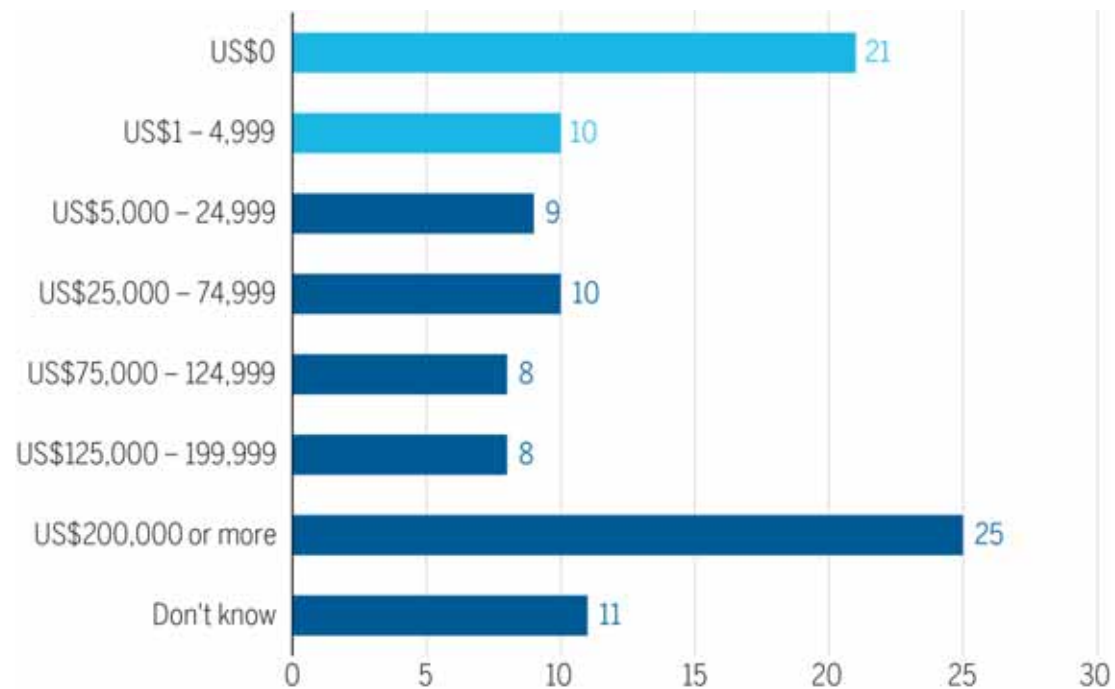
- Benefit increases or decreases based on Plan's investment performance
- Still relatively uncommon but gaining popularity

## DB Plans With DC Characteristics— Effect on Participants

- Advantages
  - Provides annuity at retirement
  - Cash Balance—Behaves like DC, familiar to younger generations
- Challenges
  - Difficult to predict retirement income
  - VAPPs—Investment risk shifted to participants
  - Cash Balance—Interest credit typically lower than long-term market return in a DC plan

# Leg 3—Personal Savings

2018 Survey—Retirement Savings for US adults: (%)



Base: All qualified respondents—General population: (n = 1979) Q1825. How much money do you have saved for retirement (from all sources including 401(k), IRA, pension, bank accounts, etc.)? | Source: Northwestern Mutual 2018 Planning & Progress Study

## Personal Savings— Challenges for Younger Generations

- More needed for a longer retirement period
- Higher cost of living—Housing, gas, childcare
- Wages not keeping up

# Median home prices

1970-2022

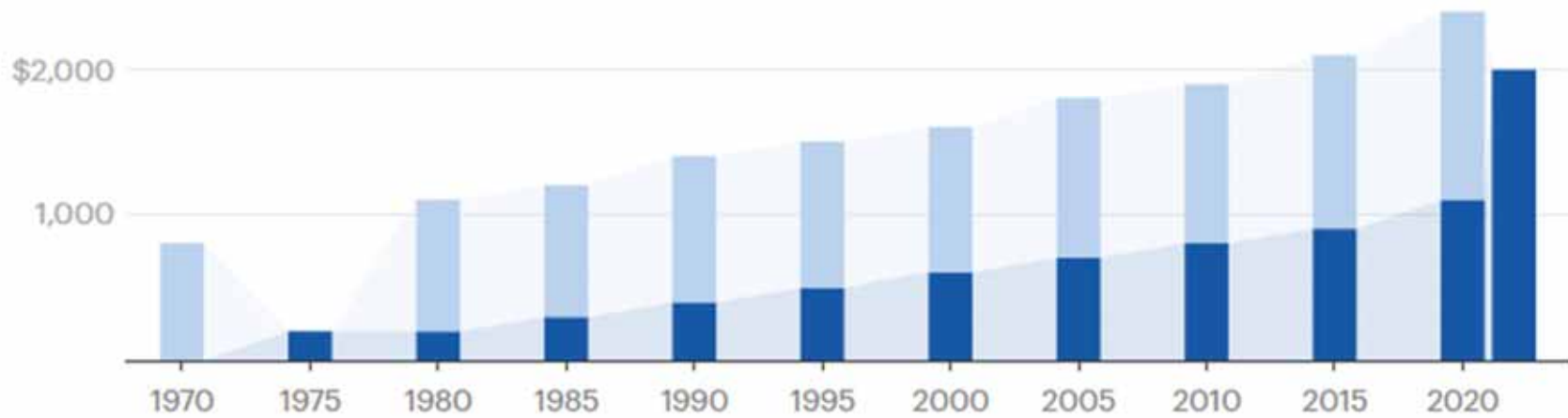




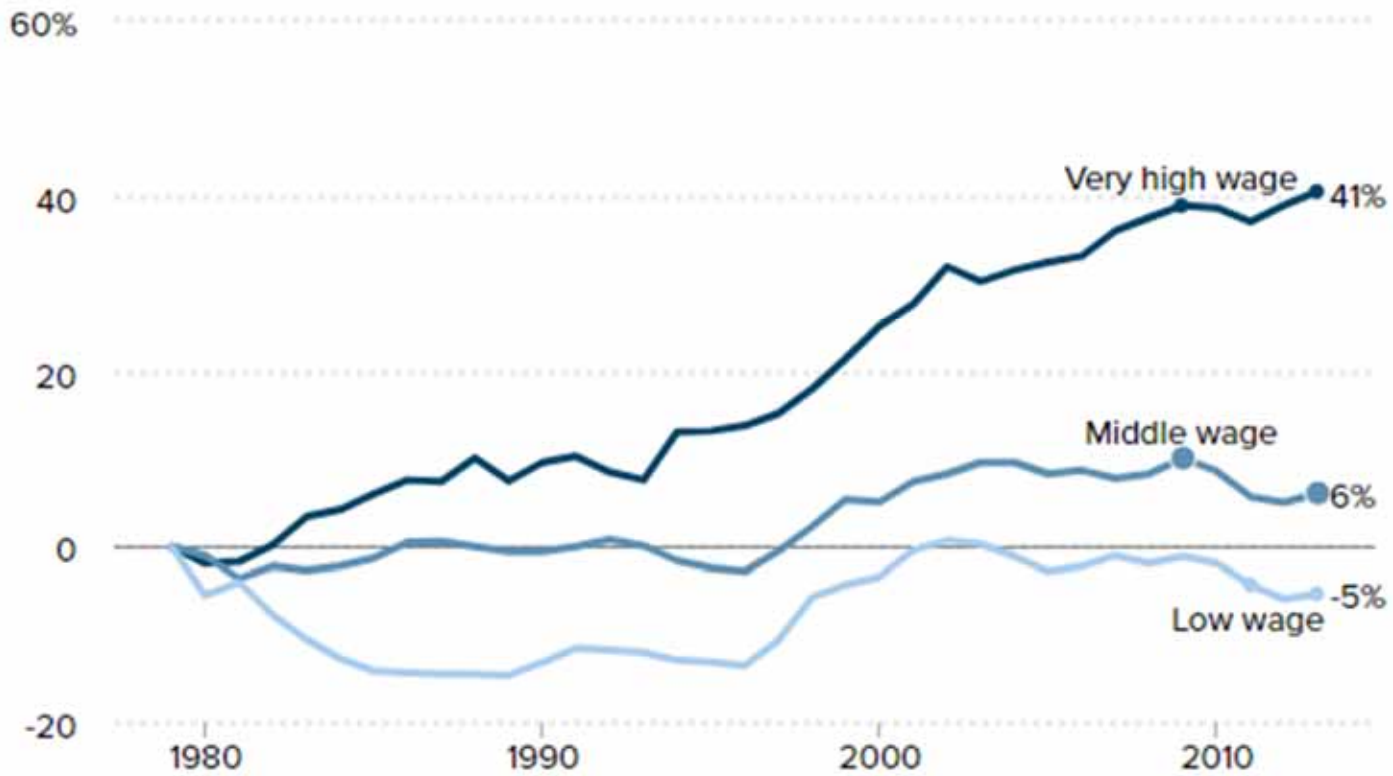
# Median monthly rent

1970-2022

■ Median monthly rent ■ Adjusted for 2022 inflation



Cumulative change in real hourly wages of all workers, by wage percentile,\*  
1979–2013



## Personal Savings— Challenges for Older Generations

- Unlikely older retirees can return to work
- Increasing healthcare costs
- Rising cost of education for college-age children

# The Personal Savings Gap

2024	All	Gen Z	Millennials	Gen X	Boomers+	HNW (\$1M+)
Amount expected to need to retire comfortably	\$1.46M	\$1.63M	\$1.65M	\$1.56M	\$990K	\$3.93M
Amount saved for retirement currently	\$88,400	\$22,800	\$62,600	\$108,600	\$120,300	\$172,100
Gap between retirement goal and current savings	\$1.37M	\$1.61M	\$1.59M	\$1.45M	\$870K	\$3.76M

# Average Age Americans Started Saving

	Mean Age
All	31
Gen Z	22
Millennials	27
Gen X	31
Boomers+	37

# Final Thoughts—3-Legged Stool



- Leg 1—Government Benefits
  - May receive less than promised and start later
  - Importance of funding the other 2 legs
- Leg 2—Employer-Sponsored Benefits
  - DC or DC-like Plans
  - Annuitize if possible
- Leg 3—Personal Savings
  - More time to save if working longer
  - Consider amount of time retired

**All 3 Legs:  
Stay  
educated  
and involved  
throughout  
working  
lifetime**

# Part III—Key Takeaways

# Key Takeaways

- Workers: Encourage financial planning throughout life
- Employers: Adapt to multigenerational workforce needs
- Policymakers: Strengthen retirement systems
- All: Adapt to constantly evolving retirement landscape

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Session Evaluation





# Sources

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Happy Retirement

