conversation with Tim Geddes

*Many employees want retirement plan features that draw from both defined benefit (DB) and defined contribution (DC) plan designs, a new research report from the Society of Actuaries (SOA) shows. The report—*What Retirement Plan Features Do Employees Really Want?*—reveals the online survey responses of nearly 2,500 adults, both active and retired. Actuary Tim Geddes, FSA, EA, MAAA, a managing director at Deloitte Consulting and one of the report's authors, discussed key findings with Editor Kathy Bergstrom, CEBS.*

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What are the key features that workers want from their retirement plans?

In our survey, the respondents were asked a series of questions and were given two packages of five or six retirement plan features—Some of the features in each package would be the same, and some of them would be different. They had to choose which package they preferred. Through that analysis, it was determined that an earlier retirement age—the age at which you could receive a retirement benefit—was the most important feature. There was a big gap between that factor and the next four. Employees didn't like having to work past age 67. And they did not like an age 70 retirement age at all. They definitely preferred age 62 over ages 65 and 67, but they really didn't like age 70.

The next four features (in order of preference) start with not having a required employee contribution. Nobody wants to have to pay for their own benefits. However, their preferences would indicate that it wasn't that terrible if they had to chip in one-fourth or even up to one-half of the benefit, but they really disliked the idea of paying for more than half.

The third feature respondents wanted was being able to leave a benefit to a surviving spouse. An example would be a joint survivor option offered by a DB plan—Participants really like this feature and would be much more likely to choose a retirement plan that included it. The fourth feature was no limitation on the number of benefit payments. People preferred having a benefit over their lifetime to having a limit. The fifth preference was being able to leave unused funds to friends or family.

With that knowledge, what do you think are the key areas of opportunity for employers and retirement plan sponsors?

If you think about traditional DB and DC plans, the features that are important to employees are not found wholly in either plan. The results of this survey support the trend toward adding some DB-like features to DC plans or adding some DC-like features to DB plans and not just thinking in silos.

Workers are willing to trade some plan features for others. They have preferences for certain elements of the DC program—in particular, the ability to leave money behind. They also prefer some elements of the DB plan, such as the employer making all or a majority of contributions and the ability to retire at an earlier age on a subsidized basis. So a program could be mixed and matched with some trade-offs to develop a design that would be palatable to an employer.

The report showed that employees seem to be more concerned about mortality risk than longevity risk. Why do you think they feel this way, and what might this mean for retirement plan features?

I took it in terms of behavioral economics, that people dislike losing something more than they like gaining something. And I think that a lot of employees dislike a risk-sharing arrangement where if they pass away quickly, they look at it as losing what they've worked their whole careers to earn. They just dislike the idea of losing the value that

they have accumulated. They may not be as afraid of longevity risk because they've already planned for it. Not spending all of their money is already one of their retirement objectives.

Many workers over age 35 seem to expect to retire at later ages and potentially work part-time in retirement. But past research has shown that many people retired earlier than they expected. Do you think this trend will change—that workers will begin to find employment opportunities and retire at later ages?

I have a half-full and a half-empty answer to that question. Employees say that they would like to retire on a phased basis, not completely retire all at once. Yet the retirees in our data set overwhelmingly said they retired at once. My half-empty answer is that a lot of times what causes people to retire earlier than they expected are either health concerns or economic conditions that cause them to lose their jobs. That is probably not going to change. It's likely that some employees will end up retiring earlier than they expected either for health reasons or because of business conditions.

But the half-full answer is that if you look at the demographic trends and the lack of growth in the labor force that's expected combined with the bulging demographic at older ages, it seems likely that there should be a solution to make a connection between retirees who want to partially retire and employers that may need that type of experience and skill level in their employees. Part of me is optimistic that this is a problem that can find a solution. I think you're going to see it become harder and harder for employers to find workers at the same time that some of these older workers want to be able to partially retire.

Many younger workers, however, expect to retire earlier. Why might this be?

I call it youthful optimism. That was even true among people who indicated that they didn't have any savings or didn't have a level of savings that they were comfortable with. Some of it is just that for younger employees, retirement is a long way into the future, and they may not appreciate what it would take to retire at a much earlier age. Maybe they overestimate their earning power in the future and underestimate the challenges that they're going to face along the way. Or maybe they just don't have an appreciation for how much it's going to take to be able to retire early.

What opportunities are there for employers to provide retirement and financial education?

We asked employees where they seek financial advice from, and we noted that their employer was fifth on the list. That might present an opportunity for employers to provide a higher touch level of financial education financially or, more likely, access to high-quality financial education that maybe the 401(k) vendor or others that work with the employer could provide.

Since DC is so dominant in today's world of retirement, we may need to progress to a place where the advice is given by professionals with access via the employer. Having an employer connect workers to some type of high-quality financial education is an opportunity to improve outcomes. Younger workers might find that valuable.

If employees want the flexibility of a DC plan but the stability of a DB plan, what does that mean for retirement benefits?

The report highlights that people are willing to make trade-offs, and we built a tool that's hosted on the society website that allows people to test different packages of features. We've put together different packages to see if we can build something that is preferable for employees but that we believe would be acceptable to employers. We tried to incorporate some of these risk-sharing features that push some of the risk away from the employer as in DC plans but provide some of the stability features from a DB plan, like the ability to have risk pooling on longevity.

However, whether these features would be permissible in the current regulatory environment is not certain because we have a regime that regulates DC plans and DB plans separately. If you start mixing and matching, you find yourself in almost a no-man's-land of regulatory uncertainty. But I think it is possible to design a system that serves the employees and retirees better than either of the two parts of the system that we have today.

Does the SECURE 2.0 Act of 2022 address any of those needs?

SECURE 2.0 has some elements that help support some of the blurring of lines between DC and DB plans—more so on the DC side. I think this is the right place to focus because DC is so dominant in the private sector. A number of provisions in SECURE 2.0 try to make some type of DB-like features more accessible, and a number of elements speak to some of our results around retirement security, including the emergency savings fund and the multiple additional ways to receive distributions without penalty, giving people more access to money. It also includes some longevity insurance with the qualified longevity annuity contract (QLAC) provisions, which haven't met strong adoption.

Legislators and policy makers have to keep tinkering with plan design options that meet a need until they find the right combination that is both well-received by the employees and available from the vendors. I think all of those are steps in the right direction to continue to try to find ways to meet the employees where they are in the middle between DB and DC.

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