

Thinking About the Future of Retirement

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Several research reports from the Society of Actuaries (SOA) offer insights into the changing environment for retirement planning and the future of retirement. Employers are increasingly turning to their employee benefit programs for opportunities to directly support their workforce diversity efforts.

The reports are as follows.

- *Megatrends Impacting the Future of Retirement Plans*¹ looks at major social, technological and demographic trends that will affect the world, employment arrangements and retirement systems. It suggests new ideas and terminology that may help different retirement plan stakeholders think differently about the future.
- *COVID Aging and Retirement Research: What's Been Done and What's to Come*² offers a longer term perspective on the impact of COVID and provides a summary and insight into a collection of SOA research on how changes made since the onset of COVID create potential changes for retirement systems.
- *What Retirement Plan Features Do Employees Really Want?*³ uses conjoint survey analysis to identify employee preferences for retirement plans. Historically, many employer plans did not consider employee preferences.

Some of the trends that impact retirement in the U.S. are common to many other countries. While the retirement plan systems differ country by country, they have common challenges, which are identified in the Mercer CFA Institute *Global Pension Index*,⁴ including dealing with demographic changes such as a country's aging society, a shift away from risk bearing and new technologies.

This article will review major trends that affect aging societies and retirement, provide a summary of some of the research results and offer insights that should be helpful in thinking about the future of retirement.

The Changing Environment for Retirement Planning

The U.S. retirement environment is heavily influenced by longer term trends, including evolving technology, changing demographics such as the aging population, growing income inequality, the evolution of the gig economy, a ma-

AT A GLANCE

- Employer and individual retirement strategies in the United States and many countries have not adjusted to societal changes including evolving technology, growing income inequality and demographic changes. COVID-era changes also will have a long-term impact on retirement systems and individual choices.
- Research suggests that society needs to consider future changes to retirement systems including matching retirement savings opportunities to new employment patterns and encouraging later retirement and greater use of work opportunities during retirement.
- To increase employee satisfaction with retirement plans, employers may want to evaluate plan design features such as full retirement age and the ability to pass on their benefits to survivors and consider offering retirement planning advice and financial education.

major shift of risk bearing from the employer to the individual, and changing patterns of interest rates and inflation (due in part to fiscal policy). The risk shift is partly caused by the move away from defined benefit (DB) plans so that most active private sector employee benefit retirement programs are defined contribution (DC) plans. The number of employer-sponsored retiree medical plans has also declined significantly.

During the last few years, COVID changed the environment for work and retirement planning. COVID-related changes included a major shift to remote work, fluctuations in asset returns and employment, government aid to businesses and individuals, and an acceleration in the adoption of technology. The COVID-related changes occurred together with other developments (such as the war in Ukraine, escalating climate concerns and supply chain problems), contributing to inflation and uncertainty about a recession and the impact of the economy on the labor market. These forces as they develop will likely influence the way individuals make decisions about jobs as well as the way organizations decide to structure their compensation strategies and retirement benefits in the future.

The world of work seems to be in a state of flux with a range of different work arrangements being tested in different organizations. As Americans adapted to COVID, the speed of implementing new changes increased rapidly. These adaptations influenced



Additional Factors Influencing Future Retirement Well-Being

This article discusses income and investments and a variety of life decisions as they relate to retirement security. It does not include a discussion of health and long-term care support and financing, but they remain an important part of retirement security.

Advances in technology will be very important in the evolution of benefit plan services and the interaction of participants with the organizations offering the plans they participate in. Technology used in retirement plans should have adaptations so that retirees can continue to use them if their cognitive skills decline. Employer plans will need to include options for employees not able to use the technology. Discussion of the details of technology is beyond the scope of this article, but evolving technology is definitely part of the future of retirement.

Immigration contributes to population makeup, and it is an important factor in labor supply and worker shortages. U.S. policy severely restricts immigration, and views on the best policy vary widely. Discussion of these matters is beyond the scope of this article.

life after the pandemic, and change continues. Climate change is affecting everyone, and it is affecting retirement. These changes are taking place in a world of increased inequality, shifting demographics, rapid technological advancements and workforce shortages. The U.S. has failed to adapt well to the aging society. Private sector employer plans are mostly DC, and about half of the workforce is not earning benefits in a plan today. The SECURE Acts offer provisions to tune up DC plans, but they did not address retirement policy or strategy comprehensively. Table I identifies selected areas where there are longer term retirement challenges and provides insights from the research and recent experience and some future outlook.

The Research

Following are highlights of the results of the major new research studies.

A Focus on the Longer Term: The Megatrends Study

The SOA report *Megatrends Influencing the Future of Retirement Plans* synthesizes major societal trends that affect the world we live in, employment and the retirement system. It looks for changes from the present using an extensive literature search. The researchers, a firm called The Future Hunters, analyze emerging and future trends for a wide variety of institutions. They also have proposed new terminology to help readers expand their mindset about emerging trends. Two examples of such terminology are:

- *Templosion*: Faster change and expectations about continued faster change
- *Gerentopoly*: Economic activity linked to aging.

The overriding message from the study suggests that society needs to reach beyond near-term choices and

TABLE I

Retirement and Benefit System Challenges and Outlook for the Future

Long-Term Challenges	Research and Recent Activity	Outlook for the Future
<p>Social Security: Current scheduled taxes are not adequate to support benefits; adjustments are needed. Otherwise, benefits will be cut by about 25% soon after 2030.</p>	<p>Social Security actuaries annually determine the program's financial situation. They evaluate changes to balance system finances as requested by Congress.</p>	<p>While the year when benefits would be cut may shift a year or two, the basic financial problem remains the same. Congress is not currently dealing with this challenge and may not until close to the time benefit cuts are reached.</p>
<p>Major shifts in responsibility to the individual: includes longevity, disability and investment risk. For retirement benefits, this is reflected in the shift from defined benefit (DB) plans to defined contribution (DC) plans.</p>	<p>The <i>Features</i> study does not show strong interest in more risk protection. SOA 2021 consumer research showed a decrease in risk concerns, but other 2023 research shows that this has reversed.</p> <p>The SECURE Act has enabled some improvements to DC plans.</p> <p>The <i>Features</i> study also enables evaluation of new risk-sharing designs, which have been adopted in Canada and in some places in Europe.</p> <p>The CARES Act improved the funding situation for DB plans.</p>	<p>Expect continued use of DC plans, but with more focus on design defaults and autoenrollment.</p> <p>Need to better address retirement security for people without access to employer plans and risk protection.</p> <p>The <i>Megatrends</i> study raises the possibility of more focus on in-kind benefits and major system changes.</p> <p>It seems likely that DB decline will continue and that it would be beneficial if more risk-sharing designs were accepted in the U.S.</p>
<p>About half the U.S. workforce did not have employer-sponsored retirement benefits—Part-time employees and employees of smaller employers often do not have benefits.</p> <p>There are parallel issues in many countries and this issue is pointed out in the Mercer CFA study.</p>	<p>In the volatile job market of the last three years, some employees lost coverage and others gained coverage—The net effect is unclear.</p> <p>More people are working independently and probably not covered by employer plans.</p>	<p>It is unclear how much priority will be given to this issue; it has potential for major resulting increases in financial hardship. Major options for addressing this issue in the U.S. include mandates, improving Social Security, more state plans, and/or a national automatic individual retirement account (auto-IRA). All these options are controversial.</p>
<p>Disparities—lower benefits for some racial and ethnic minorities, women have lower benefits than men.</p> <p>Big differences in life spans.</p>	<p>Lower paid employees were most economically hurt by COVID—Disparities most likely increased, but this was not explored in the SOA research.</p> <p>Gender disparities are an international issue.</p> <p>Note that the situation for LGBTQ+ individuals is not well-analyzed and there are data problems in doing so.</p>	<p>Expect modest focus on gender disparities. Need to better understand how to deal with racial and ethnic disparities and understanding causes.</p> <p>Attention to the LGBTQ+ retirement situation may result in better understanding and positive adjustments to be made.</p> <p style="text-align: right;"><i>(continued)</i></p>

TABLE I (CONTINUED)

Retirement and Benefit System Challenges and Outlook for the Future

Long-Term Challenges	Research and Recent Activity	Outlook for the Future
<p>Many DC plans do not offer a post-retirement lifetime income stream.</p> <p>There are parallel issues in many countries, and this issue is a major focus in the Mercer 2022 CFA study.</p>	<p>Growing awareness of the importance of this issue. The SECURE Act offers some support for progress.</p> <p>Note that in the U.S., Social Security is the main income stream for middle- and lower income Americans and the only income for some. Claiming Social Security later increases lifetime income.</p> <p>Many DC industry service providers are working on products.</p> <p><i>Features</i> study and other SOA research do not show that individuals are very concerned about this issue.</p>	<p>Expect more employer and financial services industry support for better income payout defaults, but it is unclear how many people will use them.</p> <p>A growing number of people are likely to claim Social Security later, but they are unlikely to include many of the people who have only Social Security and claim early to satisfy cash flow needs.</p>
<p>Big gaps in treatment of disability risk and retirement savings—little recognition of the interaction between disability risk and retirement savings.</p> <p>Low priority issue with employers.</p>	<p>Long COVID may make this worse. Unclear whether there will be more recognition of the issue.</p> <p>The <i>Features</i> study indicates this is a low priority with employees.</p>	<p>Social Security Disability Insurance is a main method of providing disability protection linked to retirement. It seems unlikely that there will be much focus on adding disability protection to retirement savings even though waiver of premium provisions are regularly used with life insurance.</p>
<p>Financially fragile workers are focused on paying regular bills and paying off debt, and they often don't save for retirement.</p> <p>Financial fragility in U.S. society is evidenced by poverty rates and food and housing insecurity.</p>	<p>Financially fragile individuals were harder hit during COVID, often despite government aid. Due to inflation, more and more financially fragile individuals are being forced to use savings and debt to meet everyday expenses.</p> <p>Financial wellness programs attempt to help this group find solutions.</p> <p>This group is often not able to afford retirement when other people retire, and they may need to work longer and/or reduce spending.</p>	<p>Employer focus may be on helping employees better understand and manage debt. For people spending more than they earn, focus should be on either reducing spending or increasing earnings, or a combination. Low pay in some jobs is a big part of this problem.</p> <p>Public policy might help to address food and housing insecurity. Homelessness is a growing challenge in the U.S.</p>

Source: Author's analysis.

Note: Some of the topics covered by the global study including retirement ages and working longer are discussed in Table II, and some are covered in both Tables I and II.

TABLE II

Commentary on Recommendations From the Mercer CFA Institute Study

Recommendation	Comments
<p>Increase coverage of employees (including nonstandard workers) and the self-employed in private pensions, recognizing that many individuals will not save without compulsion or automatic enrollment.</p> <p>Note: The Mercer CFA study defined an ideal system and the definition says that in an ideal system at least 80% of the working-age population should be members of private pension plans.*</p>	<p>In the U.S., individuals without employer-sponsored pension coverage face a big challenge. Public employees in the U.S. and in some other countries have better pension coverage than private sector employees. Systems vary by country with regard to how much of the population they cover and what, if any, parts of the system are mandatory.</p>
<p>Increase the state pension age and/or retirement age to reflect increasing life expectancy, both now and in the future, thereby reducing the costs of publicly funded pension benefits.</p>	<p>This is an important part of responding to the aging society. While there have been modest increases in state pension ages, few countries have caught up with the life expectancy changes. Disparities in life expectancy for different population segments increase the difficulty of this issue.</p>
<p>Promote higher labor force participation at older ages, which will increase retirement savings and limit increases in the length of retirement.</p> <p>Note: In an ideal system, the labor force participation rate at ages 55-64 should be at least 80%.*</p>	<p>This is related to the retirement age issue. Longer work may mean longer work before retirement or continued work of some type during retirement (which can be called phased retirement). Facets of this include age discrimination, lack of job options that work well at older ages and the links to benefit programs.</p>
<p>Encourage higher levels of private saving, both within and beyond the pension system, to reduce future dependence on public pensions while also adjusting the expectations of many workers.</p> <p>Note: An ideal system would provide at least a 70% after-tax replacement rate at retirement for a full-time worker on a median income.*</p>	<p>Depending on the system, private savings may be mandated or purely voluntary. It may be encouraged by employer matches, tax incentives or payroll deduction. Savings are higher in employer-sponsored plans with payroll deduction than in individually initiated savings arrangements, and savings is not an option for some financially fragile employees.</p> <p style="text-align: right;"><i>(continued)</i></p>

consider changes in direction. The *Megatrends* study is a primary source that points to several ideas for possible future attention and change, including the following.

- An increase in access to services or goods vs. financial support
- Recognition of the importance of financial literacy and growing support for building literacy
- Recognition of shifting roles between government, employers and individuals in building retirement security and rethinking how risk will be shared as well as

the growing role of the family and community in retirement. Development of solutions for individuals not covered by employer plans.

- Matching of retirement savings opportunities to new employment patterns
- Reevaluation of the merit of mandates and reconsideration of how they should be used
- Later retirement and growing use of opportunities for work during retirement and for gradual phase-down of work

TABLE II (CONTINUED)

Commentary on Recommendations From the Mercer CFA Institute Study

Recommendation	Comments
<p>Reduce plan leakage prior to retirement, thereby ensuring that funds saved will be used for retirement.</p>	<p>Opinions differ about whether the same savings system that is used for retirement should be a lifetime savings account. One of the questions today in the U.S. is how to increase the availability of emergency funds.</p>
<p>Introduce measures to reduce the gender pension gap and those that exist for minority groups in many countries.</p>	<p>As discussed in the Mercer CFA Institute analysis in 2021, the gender gap exists in many countries. A review on the 25th anniversary of the Women's Institute for a Secure Retirement showed that many of the same challenges that existed 25 years ago still exist today. Disparities by race and ethnicity are well-documented in the U.S. Disparities linked to retirement for LGBTQ+ individuals are less well-documented, probably because there is less consistent data available.</p>
<p>Improve the governance and transparency of private pension plans to improve the confidence of plan members.</p> <p>Note: An ideal system would have a strong regulator supervising private plans, mandated regular communications including personal statements, retirement income projections and an annual report, and clear funding requirements for both DB and DC plans.*</p>	<p>Wherever there are pools of money, regulation is important because the assets are potentially vulnerable to fraud or misappropriation.</p>

*The notes in this table show the *Mercer CFA Institute Index* report statements about an ideal system. The author does not necessarily agree with these definitions, and a group of experts may have varying perspectives.

Source: Author's comments on the recommendations from the Mercer CFA report recommendations.

- More focus on housing as a retirement resource and how housing values can be used to support retirement
- Evolution of technology to partner with humans in providing new patterns of care

The developments and ideas discussed in the report raise big issues about where and how people will work, live and retire as well as how they will receive health care and long-term care. Looking ahead, it is unclear how many workers will be in jobs with employee benefits and how the jobs and benefits will be structured.

The Longer Term Impacts of COVID

COVID changed the world drastically, including the way many people worked, for a temporary period. But COVID and the adaptations to it also led to long-term changes and

accelerated the rate of change. The more serious, longer term individual impacts of the pandemic included dealing with the loss of loved ones who died from COVID, living with symptoms of long COVID and shifting decisions about life priorities. The lasting institutional changes include more rapid response to technology, greater acceptance of telehealth, the exit of health care workers from the health care system, more remote and flexible work, a state of flux at workplaces and more rapid change in general. The SOA Report *COVID Aging and Retirement Research: What's Been Done and What's to Come* offers a longer term perspective on COVID, the retirement system and individual retirement choices.

The report details some of the lasting impacts the COVID period has had on individuals and larger societal issues, including the following.

- **Business and organizational results:** Some businesses experienced major profit growth while others saw declining profits or went bankrupt. Technology firms were an example of those that experienced much growth. On the other hand, restaurants suffered, and many went into bankruptcy.
- **Government debt:** COVID-related government relief left government debt to be repaid and had some impact on the economy later.
- **Inflation:** Inflation increased substantially during this period, partly driven by COVID policies, supply chain shortages and the war in Ukraine.
- **Household economic status:** While the largest number of households were unaffected, some were worse off, and a smaller number were better off. Younger generations and the financially fragile were most likely to be affected negatively. An unanswered question is how many of those who were worse off during the pandemic will recover.
- **Caregiving:** Many mothers and caregivers for disabled and older adults left the labor force because their support systems collapsed. Some have not returned to the labor force.
- **Flexible work arrangements:** The availability of remote work and other flexible arrangements increased and remains at a higher level than before COVID. New hybrid arrangements are emerging. The workplace is in transition with many unknowns about the future.
- **Commercial real estate:** Remote work changed the needs for office space. Many organizations have downsized or moved out of office space, creating major vacancies in office buildings. It is unknown how and how much of this space will be repurposed. Commercial real estate investors and lenders, including pension funds and banks, may experience substantial losses on these investments.

Employee Preferences Today: Identifying Retirement Plan Features Most Wanted by Employees

To respond to the competitive workplace and concerns that retirement plans are not adequately meeting the needs for retirement security, SOA recently completed a study, *What Re-*

tirement Plan Features Do Employees Really Want. The study helps users to understand which features of retirement plans were most important to employees.

While the U.S. retirement system serves many people in the U.S. well, it leaves many others without benefits beyond Social Security or with inadequate benefits. This study offers a new approach and powerful tool to help employers design retirement programs that meet stakeholder needs and to help policy makers evaluate potential innovations and create new options for the retirement system.

The study, performed by Deloitte Consulting LLP, used conjoint analysis to enable 2,493 survey respondents to rate plan features based on importance to them. The study required responding individuals to compare packages of plan features and identify which they preferred. It examined 15 characteristics of retirement plans, focusing on features such as when benefits can be paid, how they are paid out, who pays for the benefits and what types of benefits are offered, then evaluated which features are most important to employees.

The features can be assembled into traditional DB or DC plans or into new designs that combine risk and plan obligations differently. Some of these different designs are possible under current U.S. law but others would require a change in law. The combination of features can be tested for different demographic and employee groups using a “choice simulator tool” provided with the study.

The study identified the following areas where employers could respond to employee interests, improve plans and their administration, and increase employee satisfaction.

- **Advice and financial education:** Relatively few respondents looked to employers for advice on retirement savings and use of assets. Employers can enhance employees’ financial well-being by helping them plan for and transition into retirement. Responses indicated many gaps in knowledge about retirement and identified opportunities for enhanced retirement education. For example, 25% of respondents ages 18-24 did not know what retirement benefits their employers offered. Respondents also lacked knowledge about Social Security.
- **Retirement ages:** The most important plan attribute was the age at which full retirement benefits are avail-

able. Respondents preferred the earliest possible ages, and in general ages 67 or lower were preferred more than ages over 67.

- **Postretirement health care benefits:** Plan sponsors may be able to improve plan reception by modifying their offerings in this area or by increasing communication about the value of health care benefits. Respondents say they place a mid-level value on access to postretirement health care benefits, and they value a 50% subsidy on employer-provided retiree dental and vision benefits as much as they would value a 50% subsidy on employer-provided retiree medical benefits. This preference likely indicates a lack of understanding of the value of these benefits.
- **Leaving a legacy:** A surprising finding of the study was the value respondents placed on leaving a legacy. Most respondents would trade both a fully employer-paid retiree medical benefit and an annual 1% cost-of-living increase to their retirement benefit for the ability to pass their full retirement benefit amount to a surviving spouse.

Global Retirement Issues: The Mercer CFA Global Pension Index

The 2022 Mercer CFA Institute *Global Pension Index*⁵ study reviewed pension systems in 44 countries. While pension systems and circumstances differ by country, there are also common drivers of pension challenges throughout the world, including demographic trends, economic issues and a decline in DB plans. The study rates systems on adequacy, sustainability and integrity. It offers information on key themes and areas for change that are found in multiple systems around the world.

Some of the themes in the report include the failure to cover all employees' needs for more savings, the need to properly address increasing life expectancy and to encourage more work at higher ages, the challenges of leakage and the gender gap. Table II discusses general areas of reform recommendations and offers comments about them.

A Focus on Retirement Income

The 2022 Mercer CFA report included a special emphasis on improving pension systems, with the focus being on pri-

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vate pensions. The recommendations are focused on DC and lifetime income payouts in retirement. Following are some of the principles for policy makers and developers of retirement income products included in the report.

- Permitting lump-sum distributions for half of the account balance at retirement and for all of small balances
- Using defaults to support retirement income and defining requirements for a minimum stable income stream
- Providing financial education, guidance and limited independent advice to plan participants
- Gradually changing to a focus on income


The development of such products would be a major change for plans in many countries.

The SOA *2023 Features* study indicates different employee preferences compared with the Mercer CFA proposals for retirement income. Employees in the SOA study said they preferred to have liquidity and leave a legacy rather than spending down their assets. This is consistent with findings from earlier SOA focus groups and SOA's *Retirement Risk* survey series. In the U.S., required minimum distributions (RMDs) are the most commonly used method of distributing DC plan assets in retirement.

Conclusions

The retirement systems of many countries have not responded well to aging societies and are limited by private retirement systems that cover only a part of the population. Risks have shifted to employees, and DB plans are in decline in many areas. At the same time, new forms of risk

sharing have been identified and offer the potential for retirement plans that will better meet the needs of individuals and employers. Countries vary greatly in how and how much public programs are central to the retirement system. COVID has brought forth worker shortages, workplaces in flux, inflation, unknown effects of long COVID, technology advances and an expectation of more rapid changes. This situation leaves open the opportunity to rethink retirement and the opportunity to better adapt systems to the needs of all stakeholders.

Some issues are primarily specific to the U.S., but others are experienced by many countries. The research provided here offers a range of ideas to help organizations rethink their approaches to retirement and the needs of their employees to find the best answers for the future. 

Endnotes

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