

Retirement Risks and Challenges for Plan Sponsors

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Work and the Workplace Are Changing

- COVID-19 workplace impacts
 - Health is a major concern for all Americans
 - Business closings and layoffs – reductions in force
 - Workplace is a major potential source of infection; jobs sites modified before return
 - Many jobs done from home – at least for now
 - Big drop in demand for travel, restaurants, retail sales
 - Medical services available through tele-medicine
 - Need for masks and other appropriate protective wear or equipment.
- Big questions moving forward
 - What jobs will continue to be done from home?
 - What will be the level of work and the level of certainty of continued work?
 - How many buyouts and early retirement windows will be offered?
 - Will jobs be restructured? What new employer/employee models will emerge?
 - How will compensation and benefits need to respond to the new models?

What Has Happened That May Impact Retirement Security and Risks

- Financial:
 - Job losses, temporary layoffs and **pay cuts**
 - Declines and volatility in equity values
 - **CARES* Act included liberalization of 401(k) access for withdrawal and loan provisions**
 - Many financially fragile individuals in complete crisis
- Health and Emotional Concerns :
 - Many deaths in communities that combine personal care and housing for retirees
 - Senior communities not allowing visitors during pandemic
 - Decline in consumer confidence
 - Employees concerned about their retirement security, rightly so
 - Although lockdowns generally ended, many individuals are mostly staying home
 - Through early July, more than 90% of U.S. COVID-19 deaths are over age 55
 - Increased isolation may contribute to long term mental health issues and lead to need for increased care.

*U.S. Federal legislation providing relief on COVID-19 issues

The Role of Work in Retirement

- COVID-19 has led to major work disruption
- People may need/want to delay retirement – unclear if that will work out
- More people will need/want to work as part of retirement – but it will likely be more difficult
- Work has been increasingly accepted as part of retirement
 - Work in retirement is often on a flexible or reduced schedule – will this fit the emerging environment?
 - Few employers provide formal phased retirement programs
 - It is usually up to people to figure it out on their own
 - Many retirees work independently
- People are living longer and while retirement ages have crept up, retirement periods are increasing, leading to need for longer work and/or more assets

The Role of Health and Financial Wellness Programs

- For many people, the employer is the only or primary source of benefits, financial education, advice, etc.
- Wellness programs may include individual coaching, counseling on debt, financial strategies
- Cutting spending and basic budgeting important now
- Many people under stress, with increase in mental health issues and family challenges
- Wellness programs offer support on wide range of issues

Employer Decisions and COVID-19 Response

- Dealing with the short-term business survival and issues
- HR is consumed with keeping employees safe, dealing with a remote workforce, layoffs, return to work issues, health problems and more, more, more...
- For those with financial wellness programs, helping employees find their way
- Adding CARES Act provisions to DC plans (the Federal relief legislation allows additional loans and hardship withdrawals if plan permits), defining details and implementing
- Deciding whether to reduce or suspend contributions to DC plans and how to implement
- **Adding SECURE Act lifetime income options to DC plans**
- Deciding whether to delay funding as permitted
- Not focused on longer term retirement issues, but many are lurking

DB Plan Issues – Plan Sponsors

- Liquidity and possibility of deferring contribution
- What will happen to required contributions and expenses
- Use of retirement windows to support workforce reductions
- Employees laid off and called back – are there any issues?
- Investment strategies – do they need to be revisited?
- Possibility of more plans frozen and/or terminated
 - Potential increased derisking activity with annuity purchases or lump sum offers
 - Potential reduction in benefits due to PBGC maximum benefit limits
- Additional mortality from COVID-19 unlikely to have a large impact
- Future changes in design?

DB Multiemployer Plan Issues

- Plans in financial trouble before COVID-19 – more trouble now
 - Reduction in contributions due to fewer work hours
 - Reduction in benefits possibility
 - Bankruptcy may come sooner
- Liquidity major issue for some plans
- PBGC challenges will get worse
 - Reduction in premiums collected
 - Increase in liabilities assumed
 - Potential of collapse of multiemployer side of PBGC

Issues for State and Local Employees Plans

- Many states have lost tax revenue, incurred increased spending
- Liquidity is a major issue
- Some governmental units will be pushed into layoffs
- May push revisiting plan management, design

Questions about the future of the retirement system (COVID-19 is a disruption and encourages us to rethink)

- Do we have the right retirement system?
- Is too much risk with the employee? Who should bear retirement risks?
- What changes to Social Security, Medicare and Medicaid will improve the system?
- **How can we improve emergency funds?**
- How will people without access to employer plans build retirement funds?
- As the population ages, will retirement risk increase?
- How many employees will want to defer retirement?
- How many employees will leave work because of fear of getting sick?
- Will there be more interest in phased retirement?

Policy Questions Related to DC

- How will people without access to employer plans build retirement funds?
- Will pooled employer plans established in the SECURE Act increase the availability of plans for small businesses?
- Will state sponsored savings plans grow to address those not covered by an employer sponsored plan and decline in DB plans?
- Will lifetime income options be added following the enhanced safe harbor introduced by the SECURE Act?

Policy Questions Related to DB

- Will single employer DB funding reform be enacted, lowering required contributions to a more sustainable level?
- Will multiemployer legislation be passed granting relief to plans and/or strengthening the multiemployer PBGC program?
- Will state and local governments get any help? Can they improve the funded status of their programs?
- Will pension reform encourage more options for risk sharing?
- Will a further decline in DB lead to a push for improving Social Security benefits?
 - If employers don't want more risk, should Social Security be increased?

Questions

Resources – Society of Actuaries

Retirement Resources

- Impact of COVID-19 on Retirement Risks -- <https://www.soa.org/resources/research-reports/2020/covid-19-retirement-risk/>
- Defined Benefit Plans and COVID-19: Immediate Challenges for Plan Sponsors -- <https://www.soa.org/resources/research-reports/2020/defined-benefit-covid-19-challenges/>
- Defined Contribution Funds, Emergency Funds, and COVID-19 -- <https://www.soa.org/resources/research-reports/2020/dc-emergency-funds-covid-19/>
- COVID-19 and Working in Retirement -- <https://www.soa.org/resources/research-reports/2020/covid-19-working-retirement/>
- Impact of COVID-19 on Senior Housing and Support Choices -- <https://www.soa.org/resources/research-reports/2020/covid-19-senior-housing/>
- Impact of COVID-19 on Family Dynamics in Retirement -- <https://www.soa.org/resources/research-reports/2020/covid-19-family-dynamics/>

General Resources – COVID-19 Statistics Update July 8, 2020 --

<https://www.soa.org/globalassets/assets/files/resources/research-report/2020/covid-19-key-stats-july.pdf>

Resources – Society of Actuaries, cont’d

Impact of COVID-19 on Aging and Retirement – Essay Collection

The Society of Actuaries’ Aging & Retirement Strategic Research Program is pleased to make available [essays received in response](#) to its [Call for Essays](#) on the impact of COVID-19 on aging and retirement.

- [Will Retirement Change Due to COVID-19?](#)
by Linda Koco
- [Lessons for Retirement Annuities from Coronavirus Induced Economic Turbulence](#)
by Thomas L. Hungerford
- [Effects of Ephemeral Mass Unemployment](#)
by Jack Lund
- [Are CCRCs and Senior Housing Communities a Good Choice? COVID-19 and Risk in Arrangements for Senior Housing and Support](#)
by Anna M. Rappaport
- [Managing “Black Swan” Stock Market Risks in Retirement](#)
by Kenneth Steiner

SOA COVID-19 home page

- <https://www.soa.org/programs/covid-19/research-podcast/#research>