

Rebuilding Retirement Systems Post-COVID-19



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Proverbial “3-legged Stool” of Retirement Security

- Public Social Security:
 - Often PAYGO (tax financed)
 - Insurance element: get more if pay in more
 - Welfare element: redistributive
- Employer-sponsored Pensions
 - Defined Benefit (DB)
 - Defined Contribution (DC)
 - Hybrid
- Private Savings
 - Home
 - Financial assets



Two Main Pension Types:

➤ **Defined Benefit (DB):**

Benefit formula promised

e.g. $B_t = 2\% * (\text{Final Pay}) * (\text{Years Service})$

Ex: Brazil, US, most European national systems

➤ **Defined Contribution (DC):**

Contribution amount specified:

e.g. $C_t = 6\% * \text{current pay}$

Ex: Chile, Mexico, US 401(k) plans



→ Hybrid (Cash Balance) combine both...

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Why fund a pension promise?

Pros

- May reduce uncertainty re future contributions
- Portfolio diversification
- Permits portability
- May deepen K mkt & enhance growth

Cons

- Requires start-up group to 'pay twice' – support retirees and save for themselves
- Admin costs may be higher (maybe not)
- Governance of funds



Individual Accounts		
	NO	YES
Funded	Govt PAYGO: US, most Europe	Notional accounts: Latvia, Sweden
NO	Corp. DB: Germany	
YES	Provident Funds: Singapore, Malaysia US corp./public DB (+/-)	Individual Accounts: US 401(k), Chile, Peru, Mexico, Australia, Sweden

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FULL Funding for DB and DC...

$$\text{Assets} = \text{Liabilities}$$

DC full funding
requires:

- Assets = Current Account Balance

DB full funding
requires:

- Assets = EPV of Promised Benefits

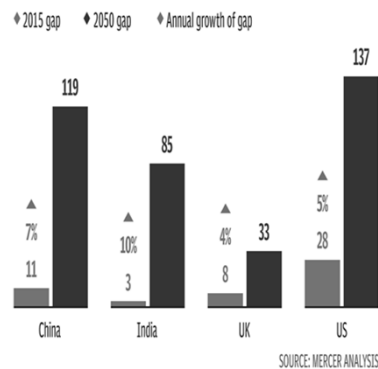
→ Reporting and accounting rules play key role

Pre-COVID-19: Retirement Systems Not Healthy

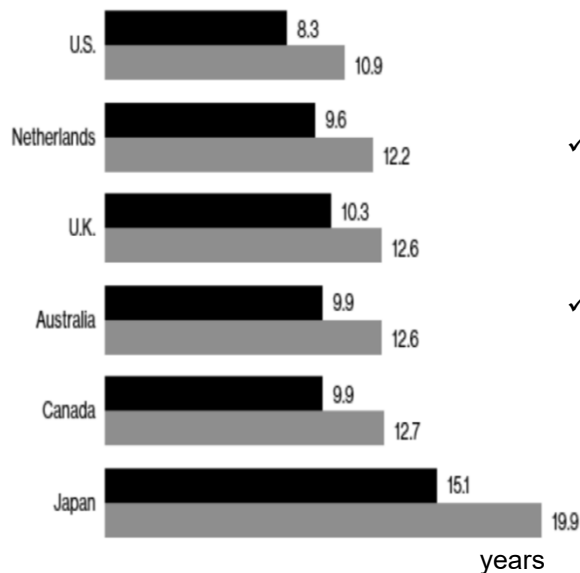
- Social Security systems facing insolvency
- Private & public DB plans underfunded
- Low returns hurting DC plans
- Rising debt, falling saving

WEF: Underfunded pensions a global time bomb!

Size of the retirement savings gap
\$trillions, 2015



Retirement Savings Gaps, Pre-COVID-19



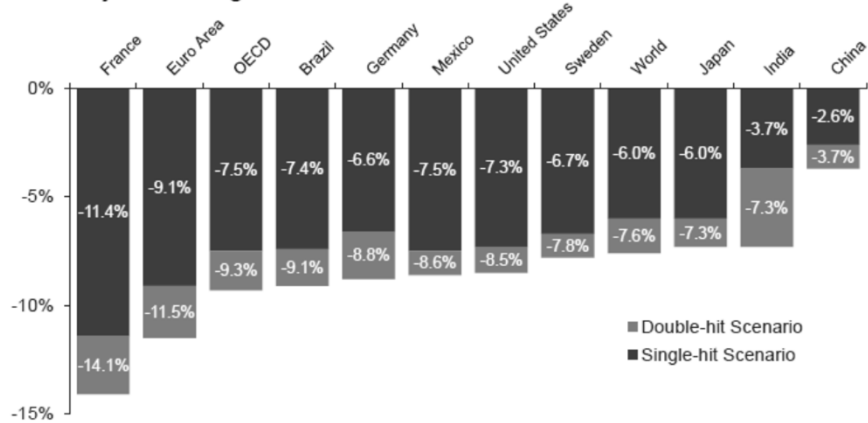
✓ Black bars reflect how many years of assets retirees have to live on.

✓ Blue bar refers to life expectancy at retirement.

Real GDP Growth Outlook Poor

OECD warns of the serious risk of a second wave of cases

2020 Projected Change in Real GDP

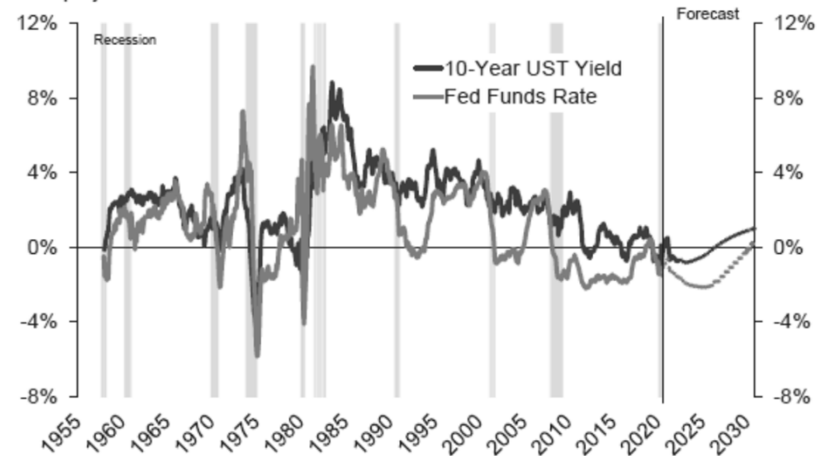


Source: KPMG Economics, OECD, Haver Analytics

Low interest rates forecasted to continue

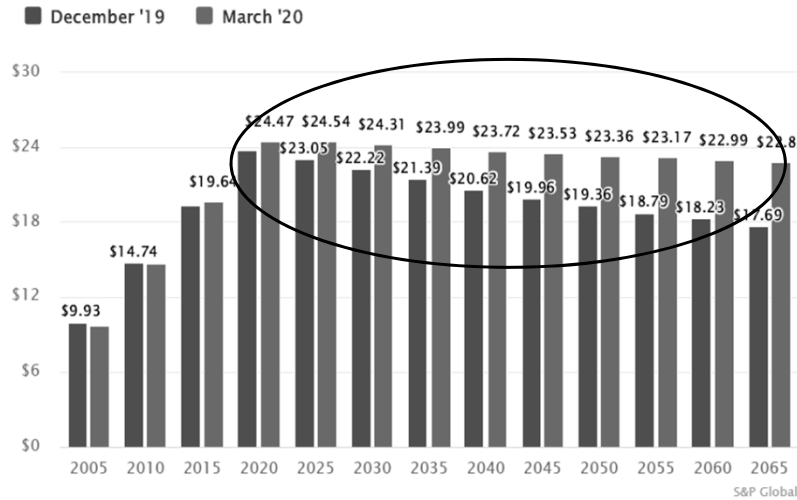
Federal Funds Rate Adjusted for Core Inflation

CBO projections



Source: KPMG Economics, Federal Reserve Board, Bureau of Labor Statistics, Haver Analytics (July 2020)

Low returns drive up saving to provide \$1/yr of retirement payouts for 25 years



Each vintage reflects a target year for retirement.

Rapid Rollout: Social Insurance Programs Launched/Extended, COVID-19

Countries with social protection responses

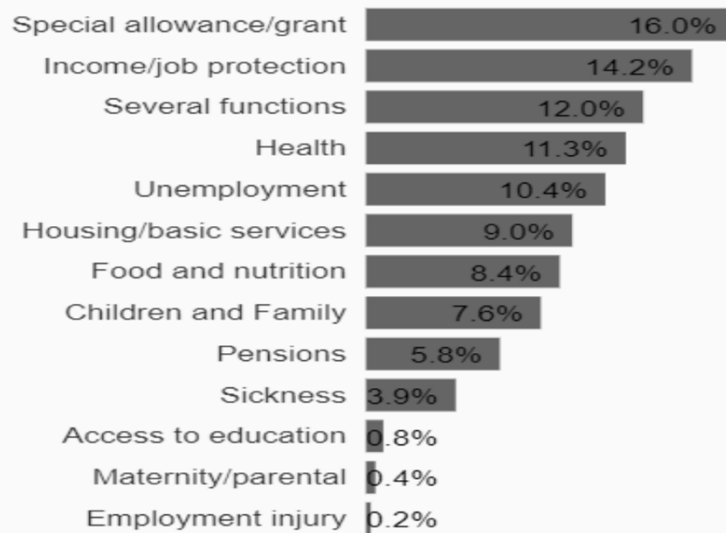


Colours range from minimum number of measures (light blue) to maximum (dark blue)

16/11/2020 (ILO)

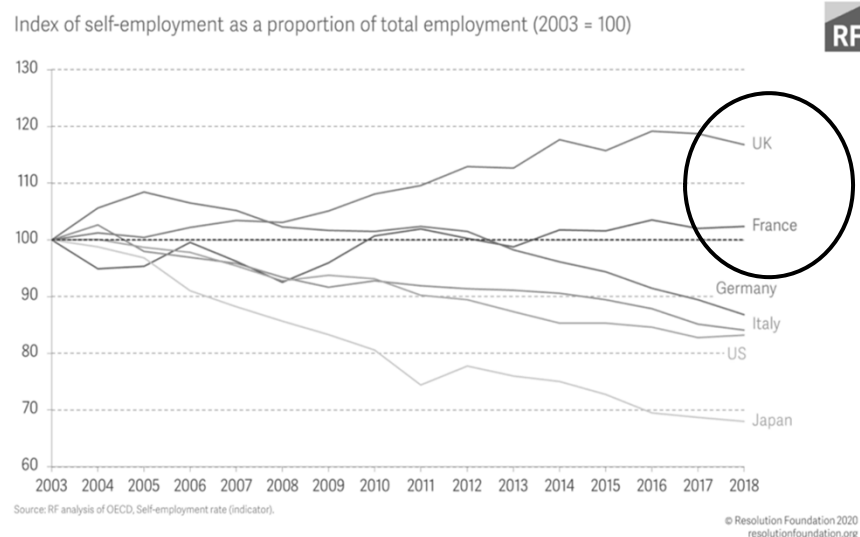
<https://www.social-protection.org/gimi/ShowWiki.action?id=3417&lang=EN>

Types of Social Assistance Programs Adopted/Extended, Post COVID-19



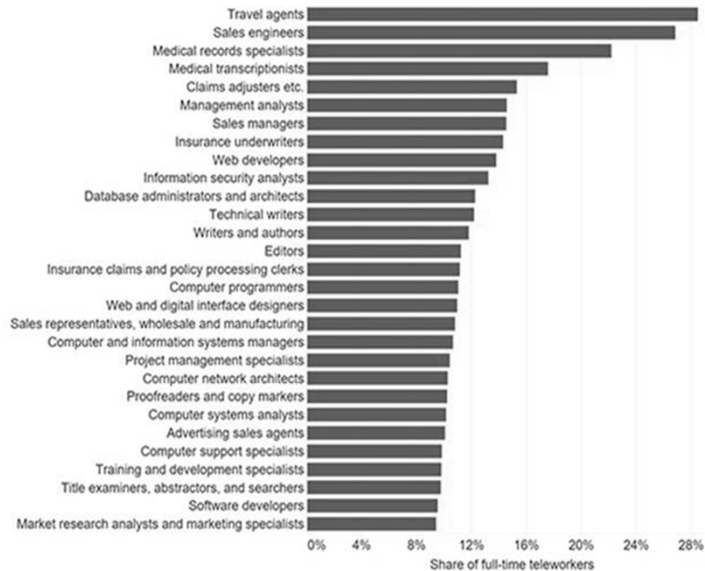
<https://www.social-protection.org/gimi/ShowWiki.action?id=3417&lang=EN>

Changes in Self-Employment over Time, Pre-COVID-19



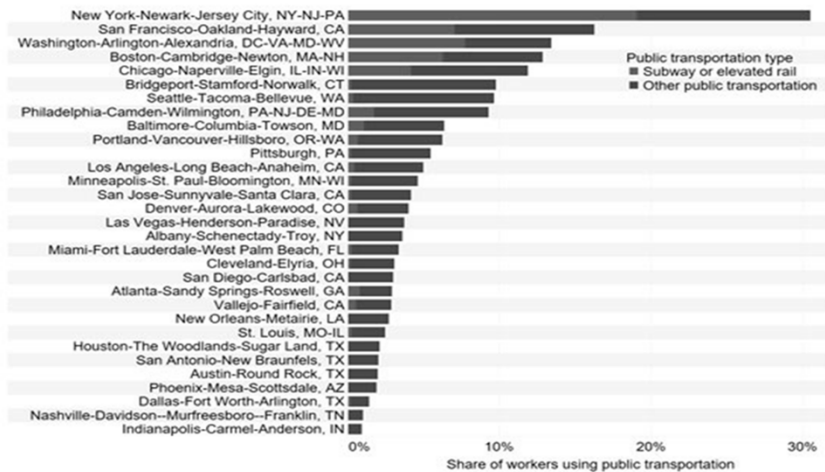
Work
From
Home?
Some
can,
others
cannot.

Working primarily from home is already common in some occupations
Full-time employees primarily working from home as a percent of total full-time employment by detailed occupation, 2018

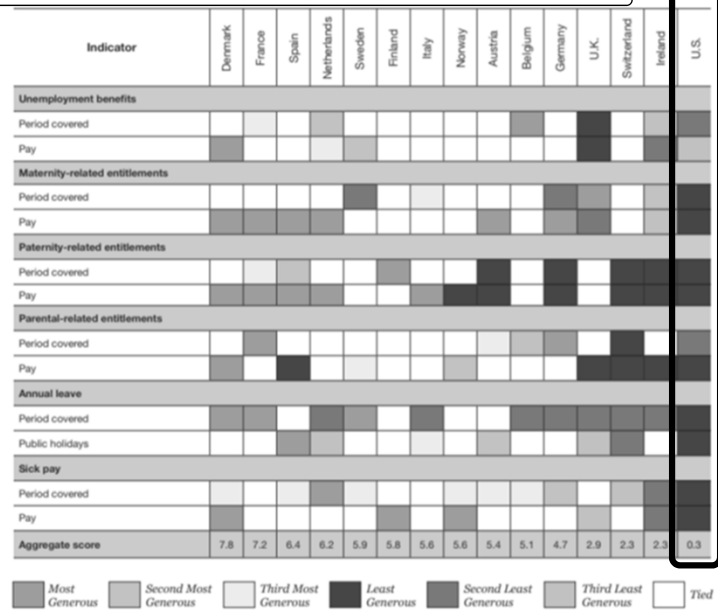


Labor Markets May Take Longer to Recover Where Many Rely on Public Transportation

It might take longer to go back to work in metro areas with high shares of workers using public transportation due to the higher risk of contagion
The share of workers commuting to work using public transportation, 2018



Job Benefits In the EU & U.S.



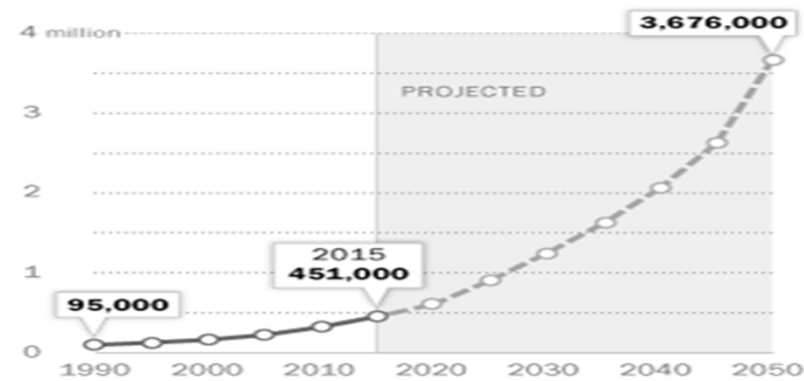
How Much to Save for 50% RR?

Save for:	$r=0.03$	
20 years	27.5%	
30 years	16.5	
40 years	11.11	

And Longevity Still Rising

The world's centenarian population projected to grow rapidly

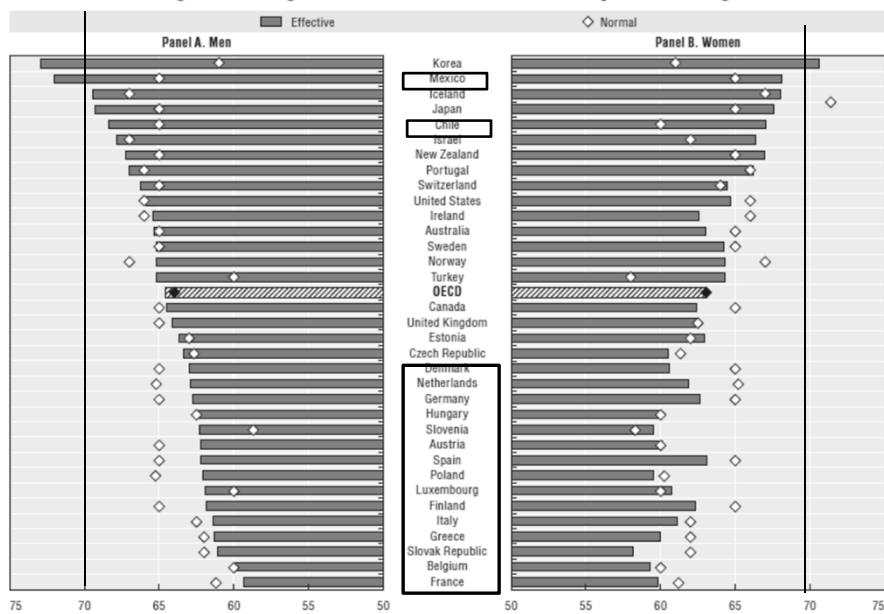
Number of persons ages 100 and older



Source: United Nations, Department of Economic and Social Affairs, "World Population Prospects: 2015 Revision"

PEW RESEARCH CENTER

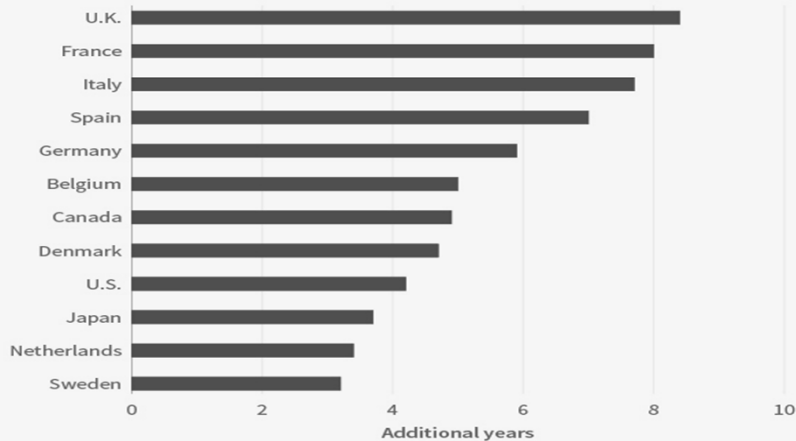
Retirement Ages must Rise



Many Have Substantial Capacity to Work

WORK CAPACITY IN OLD AGE

Additional years of work from ages 55 to 69 if men in 2010 worked as much as men of same mortality risk in 1977

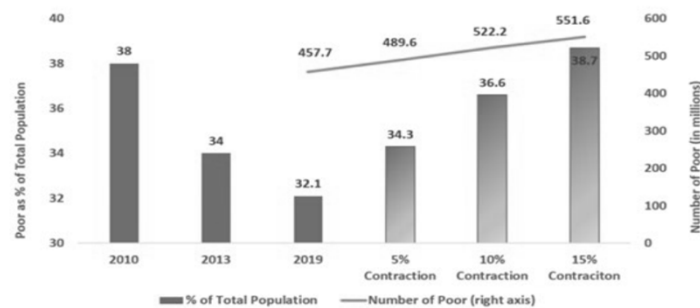


Source: Authors' calculations using data from the Social Security Programs and Retirement Around the World project

Pandemic setting poor countries back decades

Rising levels of poverty

The crisis could push tens of millions of people back into poverty.



Source: World Bank Povcalnet.

Note: Poverty line defined at 2011 PPP \$1.9/day. Scenarios are based on contraction in per capita household consumption. Figures exclude Afghanistan, Cambodia, Eritrea, and Somalia.

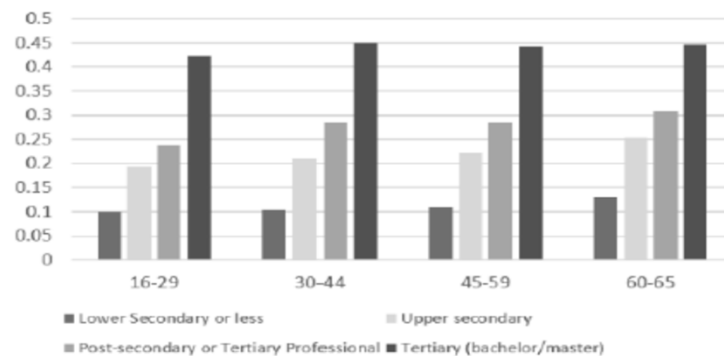
INTERNATIONAL MONETARY FUND

IMF fears for the least educated

Crisis could amplify intergenerational inequality

Non-college-educated youth are the most vulnerable.

Tele-workability index by age group and education level



Sources: PIAAC survey; Dingel and Neiman (2020); and staff calculations.

The Way Ahead:



- Who should manage the risks facing the elderly?
 - Individuals, families, employers, govt?
 - Funded vs pay as you go?
 - Pension vs health care?
- How much of GDP should go to the elderly and who should pay for it?
- How do we get to political consensus?

To better manage retirement risk:



❖ Reinvent retirement!

- Build human capital and work longer;
- Invest in financial literacy;
- Save more, invest smarter, diversify better;
- Insure against longevity;
- Make home equity accessible;
- Restructure public/private pensions.

➔ New infrastructure needed to:

prepare/mitigate; better educate; build better financial products and markets for an aging world.

International Pension Research Association (IPRA) www.iprassn.org

- IPRA is a new international organization seeking to improve the quality and impact of research on pensions and related aging issues, to optimize social and economic outcomes for an aging world.
- IPRA's vision is to be the global voice of research in the fields of pensions, aging, and retirement.
- IPRA's values are to promote breadth, originality, and challenging thinking, so as to foster respectful collaboration and engage stakeholders, and, by example, to support integrity and good governance.
- Join now online!

Thank you!

For more information:

Wharton's Pension Research Council:

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Books and working papers:

<http://www.pensionresearchcouncil.org/publications/books.php>

