

## New Premises and Plans: From Pensions to Enterprise-Based Economic Security

Doug Chandler

Pension plans emerged during the twentieth century to meet the needs of employers, unions and employees. They created economic value through pooling of longevity and investment risks, wholesale access to investment markets and professional advice, and incentives for employees to come and go at times that suited their employers. A century ago, the ideal employee was one who made a lifelong commitment to the company and to his family. Responsibility, productivity and knowledge of the business grew gradually until, late in life, mental and physical capabilities began to decline, and long-service employees became less productive.

To put it bluntly, employers who benefited from career employment used pension plans to attract the kinds of individuals who were interested in secure, long-term employment, to reward them for staying, and to incentivize them to retire of their own accord once their career stagnated. Unions sponsored or bargained for pension plans that facilitated long-term union membership and established an indispensable role for the union in their members' retirement income security.

For a twentieth century pension plan to deliver the promised economic value, a few key premises were required:

- The sponsoring employer or union will survive longer than participating plan members.
- The pension plan's contributors have deep enough pockets to be able to cushion the variability in contributions and spread investment risks between generations of stakeholders.
- Workers develop relevant skills and knowledge and maintain and grow their value over the course of their career within the pension plan.
- Long-service workers function as repositories of essential corporate knowledge.
- Marriages and families established during working careers continue through retirement years.
- The three-stage life model of school, work and retirement is the norm.

Of course, these premises vanished from some occupations and workplaces decades ago. The kind of single-employer defined benefit pension plan that was designed for non-union private sector workers in response to the 20<sup>th</sup> century workplace paradigm is already well on the way to oblivion. For public sector and unionized trades, change has been slower. The Future Hunters' report on *Megatrends Impacting the Future of Retirement Plans* comes at a time when private sector employers are dealing with superannuation of the first generation of employees without defined benefit pensions and when unions and public sector employers are awakening to existential threats to the occupations and career paths they offer. Even workplaces that have, to date, been relatively unscathed by these trends will likely undergo transformational change over the careers of their next generation of workers.

If the workplace pillar of retirement saving is to function, it needs to add economic value to the employment deal. Even if the enterprise is nothing more than an app that connects gig workers with crowdfunding and customers. Even if government and civil society and infrastructure are less stable and the pace of change is increased. The value

of The Future Hunters' insights is not in showing us that old ways and old premises no longer work. It is that they point the way to finding economic value in new **enterprise-based economic security plans**. I would begin with a new set of premises or beliefs:

- Loyalty will continue to be valuable. For some organizations, the loyalty of employees may become secondary to the loyalty of gig workers, influencers or other stakeholders.
- Pooling of risks (or transfer of risks from individuals who cannot tolerate those risks to other individuals or entities that can) creates an economic benefit.
- Individuals who are not distracted by economic insecurity, domestic strife or poor health will be more effective workers.
- Individuals will look to the organizations they associate with for more than just income, products and services. They will also look to those organizations for a place in society – shared values, connections, and support systems.
- Expertise in investing and financial planning can be applied to achieve better outcomes. Even in a world of “diamonding” and non-linear life trajectories, an enterprise will assemble workers and other stakeholders with enough in common that bulk purchasing of financial products and services will have merit.

Retirement income planning has never been one-size-fits-all. We are used to variations in benefit provisions and different risk-sharing deals for different occupations, enterprise types, and industries. In some instances, design reflects competitive labor market pressures while in others it is a deliberate attempt to define corporate culture. Some of the trends raised in The Future Hunters' report apply universally but most will apply to specific types of work and geographies. Manual, cognitive and emotional labor likely call for different kinds of **enterprise-based economic security plans**.

A few ideas for responses to specific challenges are offered below.

## The Challenge of Transience

The Future Hunters report suggests the life cycles of employers and careers will be shrinking at the same time as the healthy life expectancies of individuals will be growing. Even in the public sector, there is little merit in a design that presupposes a 35-year career with a single employer followed by three decades of unemployment.

One response to transience is portability. Individuals can move from job to job, accumulating retirement income as they go. Canadian pension legislation has required portability since the mid-1980's but it has not quite worked out the way it was conceived. Outside of the public sector, pension plans did not typically permit transfer of funds from a predecessor employer's pension plan to purchase defined benefits in the successor employer's pension plan. Rather, the commuted values were usually transferred to individual retirement accounts, subject to “locking in” restrictions requiring that the funds be drawn down gradually during retirement. This model might not be suitable for a 21<sup>st</sup> century worker, with intervals of gainful employment interspersed with retraining or other breaks and no definitive retirement date.

For “continuous temporary employment”, there could be entities other than employers and unions better suited to sponsoring lifelong savings plans. These might include alumni or professional associations or religious or cultural institutions.

Since the 1990's, Canadian tax rules have supported “individual pension plans” – essentially retirement savings accounts with contribution limits determined by defined benefit funding limits and standardized actuarial factors

rather than defined contribution limits. To date, these plans have mostly served small business owners. But perhaps this model will also be appropriate for gig workers and individuals with continuous temporary employment.

## The Challenge of Geographically Bounded Enterprises

In a sense, private, for-profit enterprises can adapt to change in a way that governments cannot. They are not bound by geography or even line of business. They can adapt, relocate and reinvent themselves. The same cannot be said for local and regional governments. They might already anticipate transformation of their economies, due to climate change, decline in fossil fuels, automation or other megatrends. How can relationships with employees be structured to be part of that transformation? Will employees need to move to other locations to have a comfortable retirement? Or will the locale become a destination for retirees and refugees from other geographical regions?

## The Challenge of Changing Families and Households

Historically, most individuals were married and owned their home when they entered retirement. By providing subsidized or optional joint and survivor pensions, pension plan sponsors helped to provide for the wife who supported their employee throughout his career. Children were nearby and helped to provide practical support to pensioners and widows. The Future Hunters report touches on demographic shifts (declining birthrates, increasing longevity, increasing divorce rates, migration) and a few of the ways these trends will affect the typical household situations and needs of retirees. There are others.

- Tax policies place solo agers in a more difficult position than couples.
- When paid caregivers take up the role of absent children, retirees in failing health will face additional financial burdens.
- It will be more common for two or three generations of family members to be absent from the workforce at the same time.

Sponsors of enterprise-based economic security plans will need to take a different view of the sources of economic insecurity in post-employment periods and make different choices concerning beneficiaries, division of pensions in divorce, and integration with government benefits. Demographic trends emerge more slowly than other megatrends, and so actuaries and demographers can offer a clearer prediction of the household circumstances of future retirees.

## Remote and Global Workers

The industrial revolution brought us “workplaces” – centralized locations where workers came together to perform specialized tasks under supervision. The information revolution brings us “Distributed Income Compensation Enterprises”. The sponsors of these enterprises do not create workplaces. Work can be done anywhere. Indeed, some internet-based enterprises may not know or care where the work is done. Employees on workcations may be indistinguishable from overseas independent contractors.

This begs the question of consistency. Historically, global employers have developed pay and benefit plans consistent with “local practice”. Executive nomads received basic pay and benefits in local currency and top hat pensions and bonuses in their home country (or parent company) currency. Will this practice spread to rank and file employees and contractors? Is it possible to construct an enterprise-based economic security plan that spans

jurisdictions and currencies and survives frequent geopolitical disruption? Will pay and pensions in cryptocurrency be required for tax, foreign exchange or consistency reasons?

## The Trust Challenge

Of course, mention of cryptocurrency brings us immediately to the question of trust. If the purpose of an enterprise-based economic security plan is to provide security, perhaps we need to look beyond financial solutions. Can an enterprise facilitate access to food and shelter in a way that transcends unreliable markets? Should enterprises look beyond the financial pillar to help their associates find economic security through government, community and property?<sup>1</sup>

### REGULATION

We can hope that large private sector institutions will be nimble enough to adapt to the new realities. If they can't, their demise will be brought about by startups. Private enterprise as a whole will continue to function. On the other hand, governments have proven to be very slow to adapt.

Many of the suggestions included here are not possible in the context of current regulations and public policy.

- Unemployment insurance is based on a traditional concept of employment.
- Innovation in pension plan design and risk-sharing may be obstructed by the 20<sup>th</sup> century dichotomy of defined benefit and defined contribution regulations.
- Income assistance, Medicare, tax credits and other government rules reflect a 20<sup>th</sup> century model of household responsibility.

Perhaps some progress can be made by pointing to best practices – taking the best regulatory innovations from around the world and communicating them. Guaranteed basic income and collective defined contribution pension plans are examples.

More likely, innovation will need to occur in creative ways. For example, longevity pools (modern tontines) are an idea whose time has come. Regulatory change has come in Australia and has started in Canada. But a quicker solution has come in the absence of regulatory change to the retirement income system by offering longevity pools as a new kind of mutual fund.

Perhaps the most important lesson from The Future Hunters' report is that innovation must come – not just in the design of retirement income plans, but in the scope and design of enterprise-based economic security plans. The most important question about attempts to provide long-term economic security should be “what will happen to the plan when circumstances change in ways we cannot yet imagine?”

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<sup>1</sup> <https://www.soa.org/4ad78e/globalassets/assets/files/resources/essays-monographs/redefining-goal-retirement/chandler.pdf>



## Commentary on *Megatrends Impacting the Future of Retirement Plans*

John Cutler

Many professions, including actuaries, toil in the nitty gritty world of numbers and statistics. That is why the *Megatrends Impacting the Future of Retirement Plans* report is so wonderful. It takes us up a couple of miles. Literally that “now we can see the forest” and not just the trees. What you get with this report is a short version of what the future of retirement might look like based on what we are seeing all around us already.

But why does this report also make me think of “Black Swan” events? Hopefully the reader knows this means events as rare and unexpected as a sighting of a black swan. In the retirement space that this report deals with, there were not one but two black swan events 80 and 90 years ago. One was the Great Depression which led to the creation of Social Security. The other was even odder, namely World War II. Not the war itself (as opposed to the First World War which may well be a Black Swan event). Rather WW II had the unexpected result of altering the way employer benefits were constructed. As a result of wage/price controls employers began to offer retirement defined benefit plans as well as life and health insurance. These did not “expire” at the end of the war’s wage/price controls. Indeed, health insurance, life insurance and retirement benefits continue to dominate employer benefit offerings to this day (though less so with defined benefits as these have given way to defined contributions). While war would not be an unexpected (though sad) part of human existence, the oddity of it reinventing the delivery of insurance and retirement products in the United States is the kind of outcome that this *Megatrends* report is looking at today.

Let’s look at some of the interesting portions of the report.

**Accelerated timeframes and expectations.** Wow. Completely obvious to everyone today. Yet, what it means in terms of handling it – riding the wave as it were – is still beyond us. Actually, this reminds me of the Eschaton. I don’t mean the theological end of the world; rather it is Ray Kurzweil’s “The Singularity is Near” where he posited in his 2005 book that, at some point in the mid-21<sup>st</sup> century, we would have access to so much information – and in an integrated way – that we could imagine almost any outcome and create it. Of course, his book was before we learned that social media and artificial intelligence could create any outcome ... and that we would hate it. (See the *Megatrends* section on the misuse of information and the “devolution of public discourse.”)

**COVID.** This was not a black swan event to those who work in that health area. For experts, it is to be expected that there will be not only epidemics, but pandemics. That also means it should not be an unexpected outcome that millions of older persons would die from it (especially in nursing homes). What I would regard as a black swan event is how we responded to COVID, for instance, moving everyone out of the office to work at home. That, to me, is akin to WW II in creating a dynamic that will likely outlive the immediate trigger cause. Again, the *Megatrends* report encapsulates and expands upon this.

**Changing families and lifestyles.** Another “obvious” aspect of modern life. But yet one we have little feel for in terms of addressing the long-term issues. In fact, we see some divisiveness both politically and culturally to questions of diversity, equity and inclusion. How will our future society view this? Again, the *Megatrends* report gives us a flavor of where this will end up.

**Climate.** This is an area where follow-up work would definitely be in order. While not a black swan event because of how it is evolving,, it is important to keep on our radar screen. (For a little more on that, I’d refer you to Kailan Shang’s research at <https://www.cia-ica.ca/publications/publication-details/rp222126> where he created a pandemic risk-driven scenario generator (PSG). The model generates pandemic events including frequency, severity, and duration and its macroeconomic impact.) The SOA also has a strategic program on [Catastrophe and Climate](#) which has valuable resources on this issue.

In conclusion, I commend the SOA for approaching this topic in this way. There are a lot of moving parts and different opinions about how all aspects of retirement will play out in the long term. The term “retirement plans” in the employer arena may become a misnomer as retirement continues to evolve. With the decline of defined benefit plans and rise of defined contribution plans, the traditional perception of “retirement plans” has been changing for quite a while. And with the gig economy many people will not really even have access to employer-based products. Instead, “retirement plans” will likely come to mean what people construct on their own as much as what they can obtain from the more traditional employer-based set of benefits.



## Comments on *Megatrends Impacting the Future of Retirement Plans*

Anna Rappaport

I am very pleased that the SOA Research Institute contracted with The Future Hunters to prepare the research report *Megatrends Impacting the Future of Retirement Plans*. We live in a world of constant change and must make decisions based on what we see now and what we expect in the future. Our experience is based on what has happened in the past and is happening now. As individuals, we may find that the recent past is more vivid than the longer-term past. The actuarial experience information that is available for us to work with reflects the past.

As retirement actuaries, we work with longer-term financial systems. Benefits are generally earned in a pension arrangement while we are part of the active labor force, and they are generally used after we retire.

This report looks at major societal trends that may affect the world we live in, the employment arrangements that are available to us, and the retirement system. The report includes some new ideas, some of them described by using new words to help us think in different directions. Some of the ideas include:

- Templosion – faster change and expectations about continued faster change.
- Gerentopoly – Economic activity linked to aging.
- Non-linear life trajectory – Changes in activity throughout life so that education may be spread throughout life between periods of work and leisure.
- Technologies and currencies that we had not thought of before.

These are just a few of the ideas.

COVID-19 changed the world we lived in drastically for a temporary period and it changed the way many people worked during that period. It also caused many people to think about their values and priorities. Long COVID leaves people with limitations. It is impossible to know how much long COVID will impact health and the ability to function. It is too early to know how much longer term influence the experiences of the COVID period will have. The experiences of COVID, when combined with the major changes in our society will probably lead to permanent changes in how we work, are compensated and probably also how we structure employee benefits.

### The Population and Retirement Ages

The population has been aging for many years with major changes in life spans in the last century. After years of life span improvement, there was some back sliding in the last few years. Retirement ages dropped for many years and have increased a little. But there have been major increases in expected periods of retirement, although with many people who do not have the resources to finance retirement. We have come to recognize that there is a gap in life expectancies by different racial groups. This leaves us with big questions about how and when we will retire.

Families and households have changed, with fewer people marrying, smaller family size, more divorce and an expectation of more solo agers. Yet families have traditionally been the major source of care and support for people

who need help in old ages. Public discussion of LBGTQ+ issues has increased, with some divisiveness. . Many couples will no longer be together during all or part of retirement. This leaves us with big questions about what the retired population of the future will look like.

## Technology and Changing Environments

Technology has evolved for many years but change and the willingness to adopt new technologies quickly has sped up rapidly in the last few years, particularly during the pandemic. Hand-held devices widely available today allow us to do things differently. Wearables allow personal measurements important to our health, which we can read or even directly transmit to medical providers. New forms of surgery are much less invasive and have much shorter recovery periods. Financial transactions are often conducted over the internet. Financial advisors are able to work with clients in many locations. Sensors support wellness checks and robots are likely to support caregiving functions in the future. Most people prefer to stay in their homes if they have limitations and technology may support and enable longer periods at home. There is a shortage of caregivers today and it will increase over time, but technology may change the duties of these jobs. This leaves us with big questions about what technologies we will be using in the future and how technology will impact where we live and how we get care.

## Bringing the Trends Together

The *Megatrends* report gives us insight into a wide variety of trends. My comments above touch on some of the areas in the report. For most of us, it includes trends that we were unaware of or had not considered as having an impact on the world in which we must operate. These are ideas about the future of retirement to help us think about what we are doing and what might make sense in the environments where we are developing and implementing retirement systems. The report is very helpful in broadening our horizons and helping us focus not only on the world today but rather thinking about what the world will be like.

I was first aware of this type of information in the early 1970s and it has influenced my thinking and how I approach issues ever since. I first met Edie Wiener, President and CEO of The Future Hunters, when she was employed at the Institute of Life Insurance (now part of the ACLI) and I was employed in a large life insurance company. Her team at the Institute published a series of Trend Analysis Reports. Their reports together with a study of societal trends including demographics set me on a path of always trying to focus on the world including the impact of change and next steps.

It seems very important to me to blend what we know about where we are today with thinking about possible futures. It is also important to know that there is considerable uncertainty and that the solutions we develop need to fit with moving forward and need to be adaptable.

I encourage all retirement and aging-focused actuaries and other professionals to read the report, to think about their experience and the environments they work in, and how to build systems that will work in the changing environment.

In some cases, these systems will be feasible within the current constraints, market offerings, and legal structure that exist. In others, they may not be. Where they are not, it is important for us to think about what the better solutions are, and how can we work to make them feasible.





## What Do We Have If We Don't Have Each Other?

Ruth Schau

The title came to mind as I read the Society of Actuaries Research Institute's *Megatrends Impacting the Future of Retirement Plans* report. Socialization may include new options as mental health, families, and communities continue to evolve. But no matter what, we need each other in our fields to work toward meaningful change and in our communities and homes to continue to be loved, needed, and accepted.

Solo agers may be of particular focus as we consider aging and supporting our health during retirement. Health refers to a combination of physical, mental, and financial health for discussion purposes. I also want to mention that individuals become solo agers if they live long enough as family and friends predecease them.

We need to consider how to design benefits to support aging people by looking at current issues and recognizing that no single solution, no matter how appealing it is for one group of individuals, will never satisfy all. There is a need for multiple options and solutions. As stated in the *Megatrends* report "massive populations of those over-65...are defined by their compression over time into diamonds: multi-faceted with no two exactly alike. Every pension designer/provider needs to go back to the drawing board and figure out what it means for an employer's workforce, their processes, their products and services, and their customers/members/clients, as family, education, work, retirement, and location are all bespoke, and hardly anyone follows a linear and predictable path anymore."

My entire career has been in the retirement field, and we still don't have benefit diversity, or a wide selection of options provided by employers. Due to IRS rules regulating nondiscrimination, benefit plans trend towards one size fits all. But what if options could be designed to be financially equivalent, but not identical? In the quest for a comfortable and less-worrisome retirement, innovative plan designs could be created to better support their workforce. Clarifying for employers how to manage the risk of benefit-related lawsuits against them for being original or innovative could help spur more efforts for designing the future.

Thinking creatively, in the future, one might envision employer money transferred for lifetime income, and used to fund living in retirement communities, including assisted living. If individuals were able to work longer on a part-time basis, Social Security benefits could be deferred to age 70, increasing monthly lifetime payments.

Or consider a future option that could include a worry-less option after age 80; a benefit that manages individual finances, easily paid for by the Qualifying Longevity Annuity Contract (QLAC)\*, which is purchased at age 65, with benefits starting at age 80.

Maybe it wouldn't matter if a plan is a DC or DB plan since the underlying benefits and options could be the same for all. I could keep adding thoughts here, but the goal is for all of us to start envisioning and designing future retirement plans that will provide more support with defaults, knowledge, and guidance for each, personalizing the future of retirement and the success of the retiree.

We need each other to accomplish a retirement culture change.

\*Technical Note on QLACs - In order for the contract to be eligible as a QLAC, certain requirements under Treasury regulations must be met, including limits on the total amount of purchase payments that can be made to the contract. A QLAC is usually purchased before age 70 and deferred to an age no later than 85. The purpose is to provide lifetime income to an individual or to a couple to support increased health expenses, cost of living increases, desired reduction in required minimum distribution requirements, or reducing financial worries later in retirement. Qualified contracts, including traditional IRAs, Roth IRAs, and QLACs, are eligible for favorable tax treatment under the Internal Revenue Code (IRC). Certain payout options and features may not comply with various requirements for qualified contracts, which include required minimum distributions. Therefore, certain product features, including the ability to change the annuity payment start date, accelerate payments, and to exercise withdrawal features or payout options, may not be available or may have additional restrictions.

*Note: The opinions and views expressed in this article are those of the author and do not necessarily reflect Pacific Life's views on any of the topics discussed.*



## The Futurist and the Actuary

Andrea Sellars

According to Merriam-Webster...

*A **Futurist** is one who studies and predicts the [future](#) especially on the basis of current trends.*

***An Actuary** is a person who calculates insurance and annuity premiums, reserves, and dividends.*

The Society of Actuaries (SOA) goes further to define actuaries as professionals who develop and communicate solutions for complex financial issues...and who help leaders make strategic decisions and consumers prepare for their future.

This *Megatrends Impacting the Future of Retirement Plans* report reflects the SOA Research Institutes' effort to tap into the Futurist's domain to identify, analyze and understand current pertinent trends in our society, economy and environment that will have major implications for future retirement planning and security. I think our actuarial profession will find this report enlightening, and sobering, in that planning for future retirement security is extremely challenging, and is becoming even more complex, and the financial implications are indeed challenging. It is my hope that our profession will take the trends identified in this report and figure out the best way to develop financial strategies to anticipate and address them.