"Crisis" Management: Uncertainty and the Workplace

EBRI-ERF Policy Forum #74
Thursday, May 15, 2014

Be Careful What You Wish For: The Impact of the ACA on Employment-Based Health Benefits

Paul Fronstin, Ph.D.
Director, Health Research and Education Program
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Washington, DC

ACA Leveled the Playing Field

Public Insurance Exchanges

- Guaranteed issue
- Modified community rating
- Subsidies
  - (<400% FPL)
- More choice

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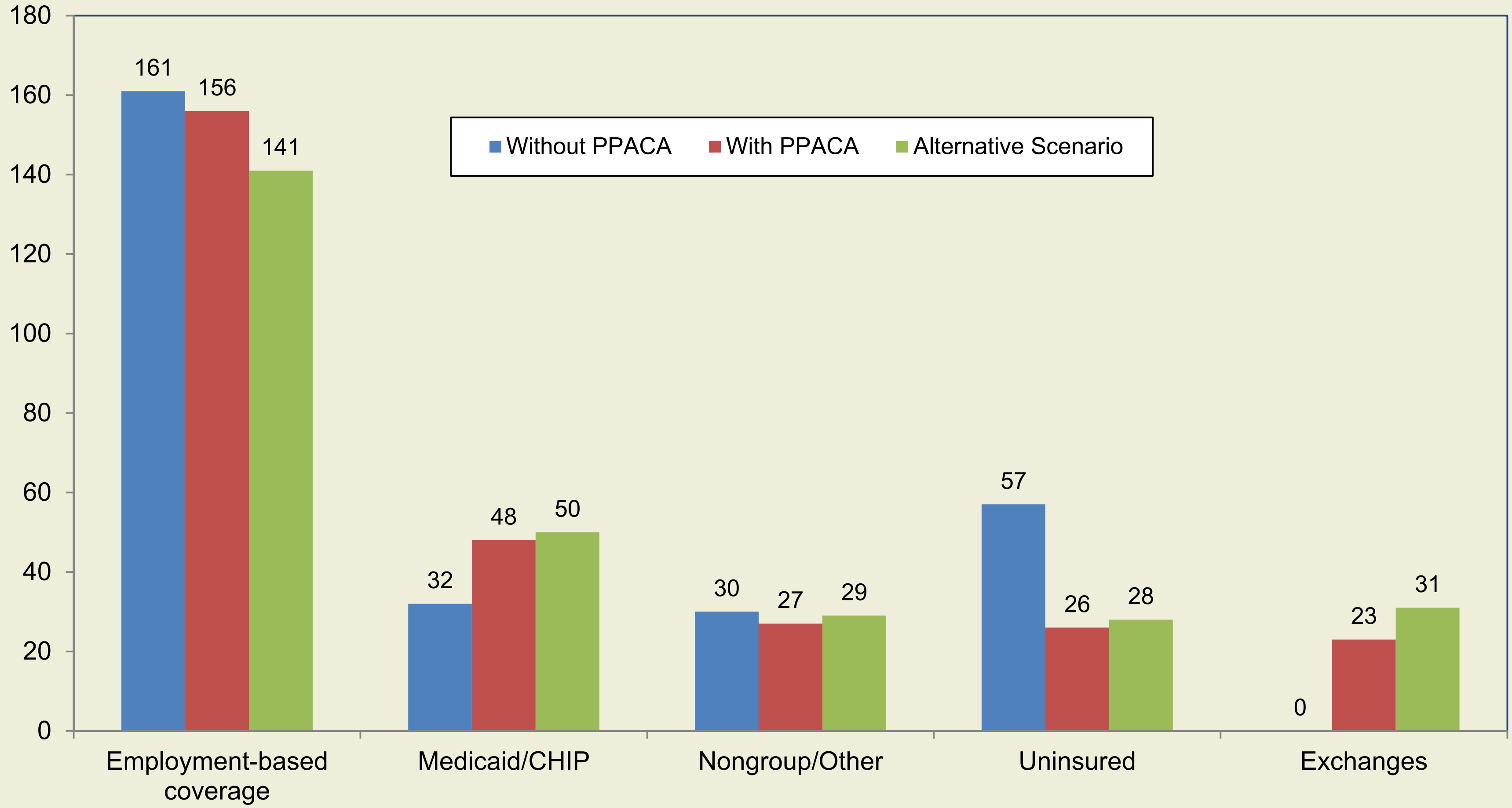
CBO "Alternative" Projection for 2019

31 Million People in Insurance Exchanges; 20 Million Fewer in Employer Coverage



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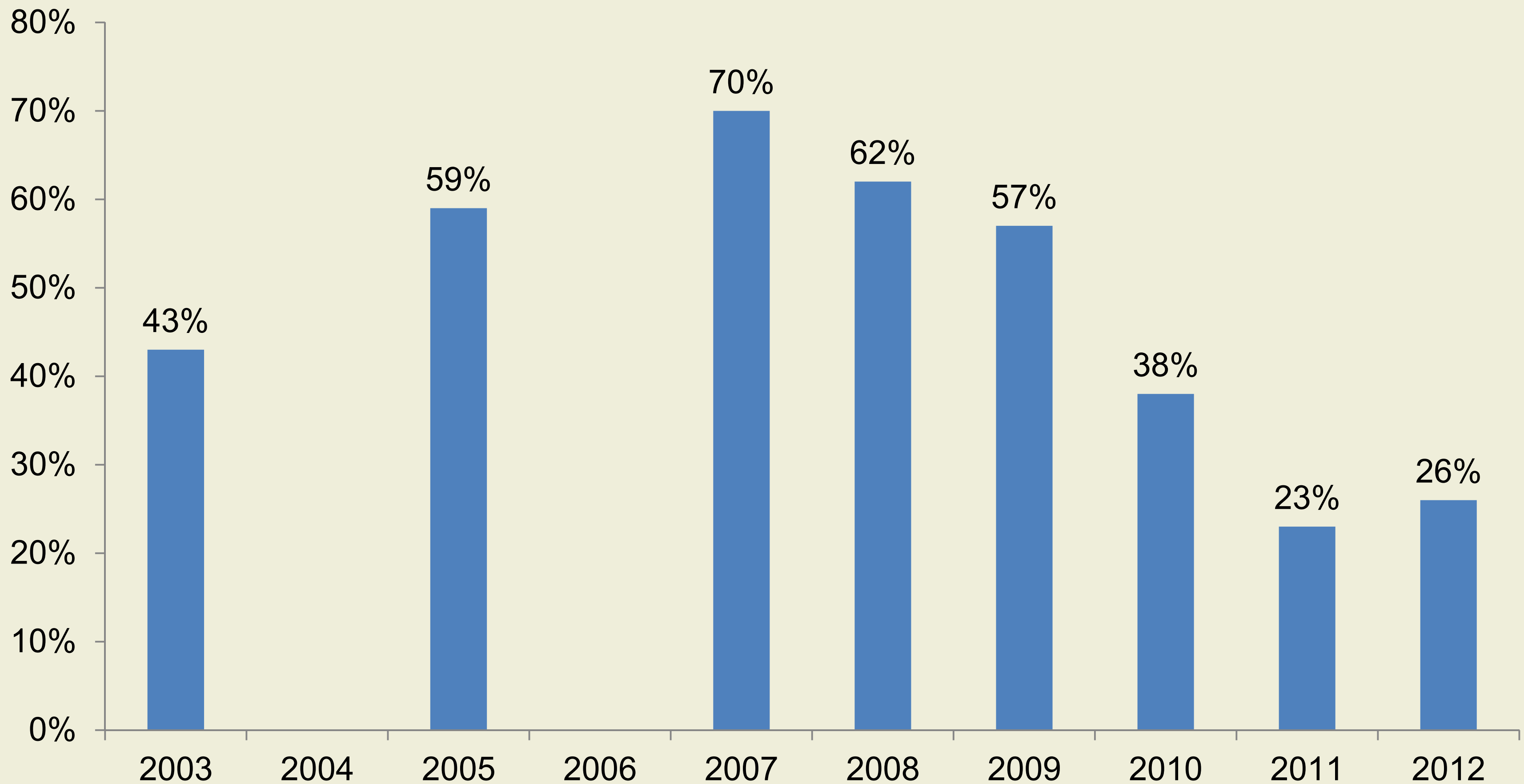
Source: CBO. http://cbo.gov/sites/default/files/cbofiles/attachments/03-15-ACA_and_Insurance_2.pdf

Declining Confidence Among Employers That They Will Be Offering Health Care Benefits a Decade From Now



Source: NBGH/Towers Watson.

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Findings from EBRI Survey on Value of Benefits

- Health benefits are (still) by far the most valued employee benefit
  - 70% rate health benefits most important
  - 10% rate health benefits 2nd most important
  - Of the 60% experiencing rising health care costs, one-third reduced contributions to a retirement plan
- When it comes to considering a specific job…
  - 77% rate health benefits as most important benefit
  - 11% rate retirement savings plan as most important benefit

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Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2000–2012 Health Confidence Surveys, and 2013 Health and Voluntary Workplace Benefits Survey.

Findings from EBRI Survey on Value of Benefits

- 90% of workers are confident that benefits purchased through employer are less expensive than what could be purchased individually
- 80% confident that employer picked best plan
- 27% extremely/very and 50% somewhat comfortable with employer making purchasing decision
- 90% of workers are satisfied (to some degree) with their current health coverage
- 75% satisfied with mix of health coverage and wages (25% want something else)

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Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2000–2012 Health Confidence Surveys, and 2013 Health and Voluntary Workplace Benefits Survey.

Room for Improvements? More Findings from EBRI Survey on Value of Benefits

- 90% interested in more choice through employer plan
- 45% prefer something along the lines of a defined contribution
- Most workers comfortable using health plan rating system
- Most workers confident that they could choose best coverage

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Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2000–2012 Health Confidence Surveys, and 2013 Health and Voluntary Workplace Benefits Survey.

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"Crisis" Management: Uncertainty and the Workplace

Setting the Stage: Research Perspectives from EBRI

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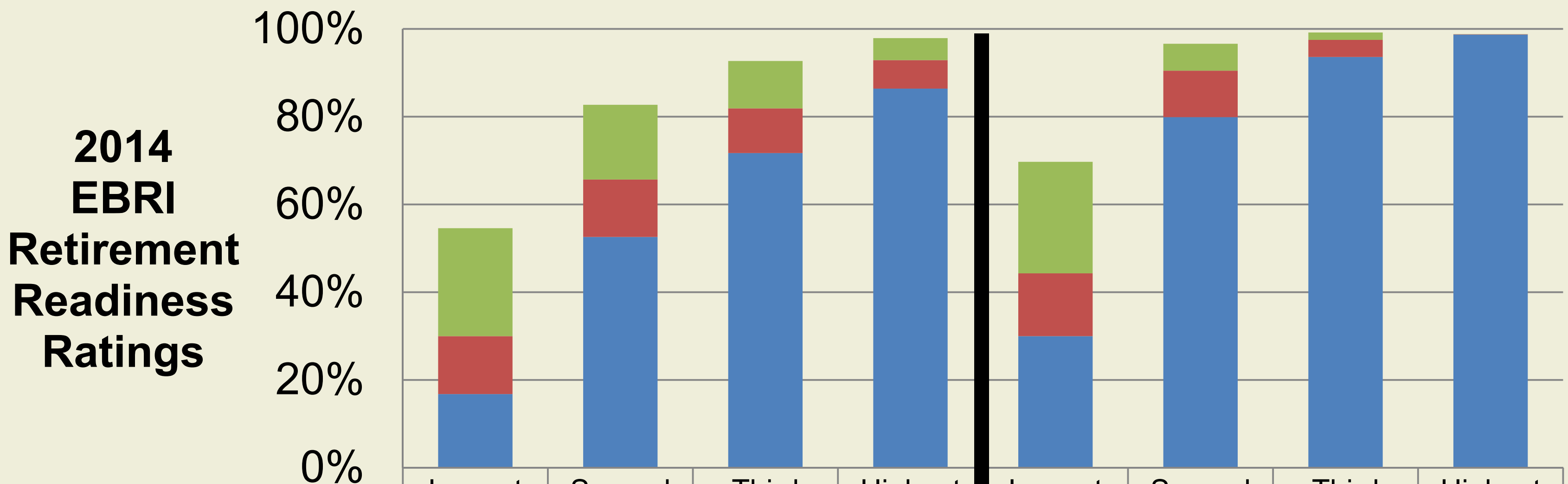
EBRI-ERF Policy Forum #74
May 15, 2014

Probability of NOT running short of money in retirement depends on relative pre-retirement income level and the expense threshold

(Boomers and Gen Xers with and without Long Term Care and Home Health costs included)



Percent of simulated expenses	Lowest quartile with LTC	Second quartile with LTC	Third quartile with LTC	Highest quartile with LTC	Lowest quartile without LTC	Second quartile without LTC	Third quartile without LTC	Highest quartile without LTC
80 percent	25%	17%	11%	5%	25%	6%	2%	0%
90 percent	13%	13%	10%	7%	14%	11%	4%	0%
100 percent	17%	53%	72%	86%	30%	80%	94%	99%

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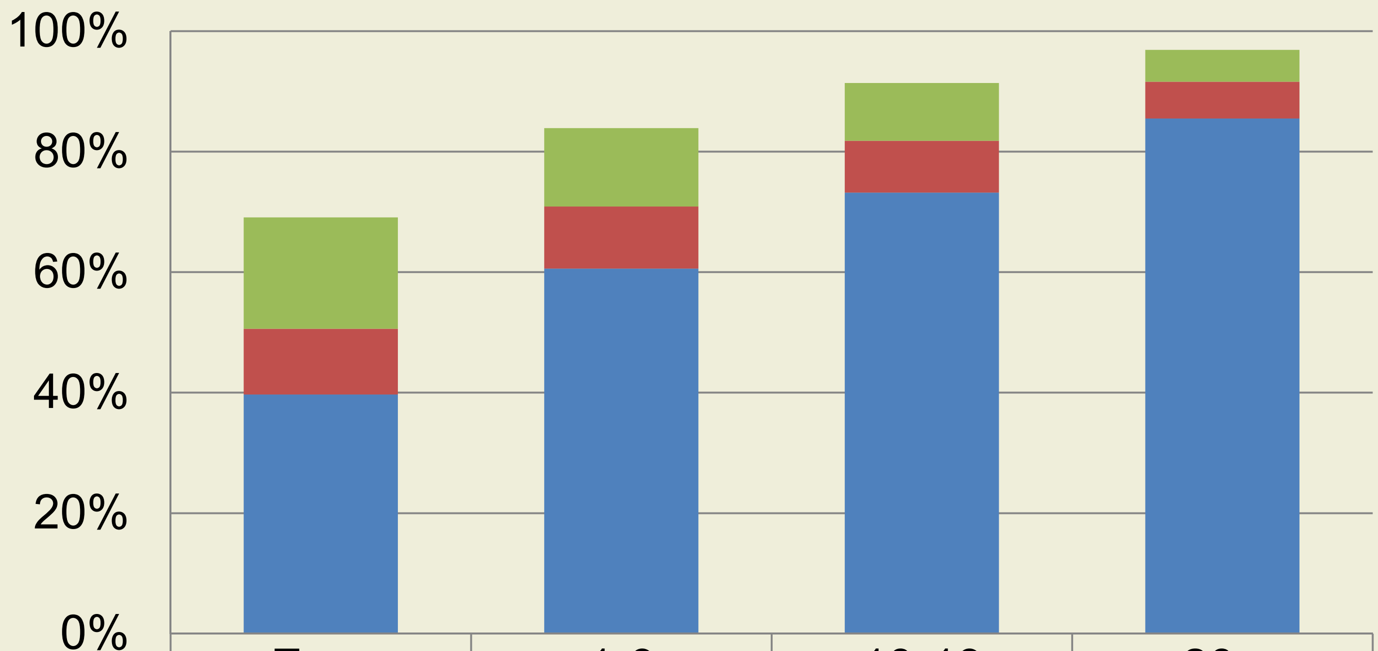
Source: Employee Benefit Research Institute Retirement Security Projection Model® Version 1995

Probability of NOT running short of money in retirement depends on the number of future years of eligibility for a defined contribution plan
(Gen Xers with Long Term Care and Home Health costs included)



Percent of simulated expenses	Zero	1-9	10-19	20+
80 percent	19%	13%	10%	5%
90 percent	11%	10%	9%	6%
100 percent	40%	61%	73%	86%

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Source: Employee Benefit Research Institute Retirement Security Projection Model® Version 1995

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Panel 1: Healthy, Wealthy, and Why – In the Midst of Uncertainty, Can Financial Wellness Work?

EBRI-ERF Policy Forum #74
Thursday, May15, 2014

The U.S. Retirement System

EBRI Policy Forum
May 15, 2014
Washington, DC

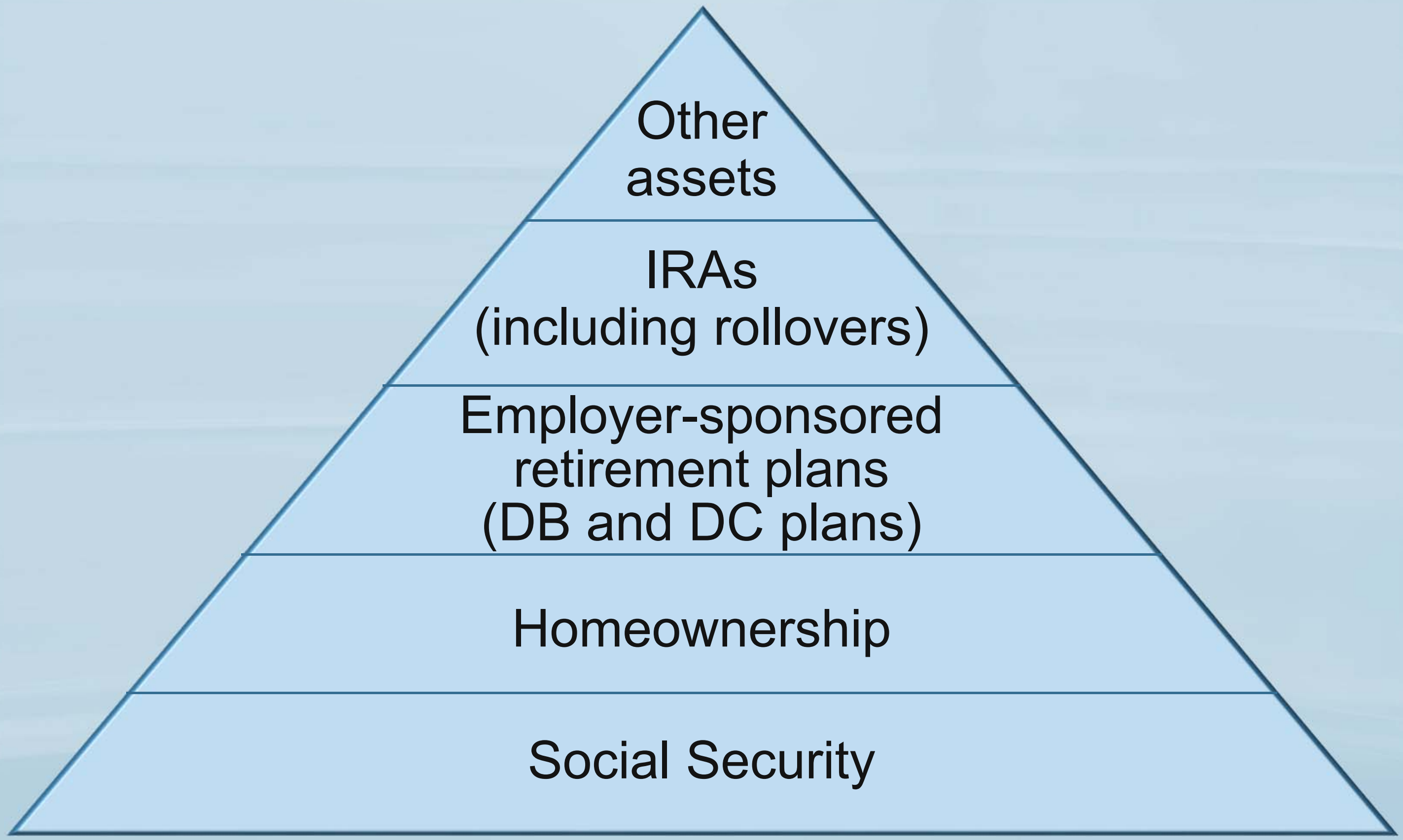
Sarah Holden
Senior Director, Retirement & Investor Research

INVESTMENT COMPANY INSTITUTE

Overview

- The U.S. Retirement Resource Pyramid
- A Close Look at Retirement Preparedness in America
- Focus on Retirement Saving Increases with Age
- Workers Likely to Focus on Retirement Saving Are More Likely to Have Coverage
- Appendix
- References

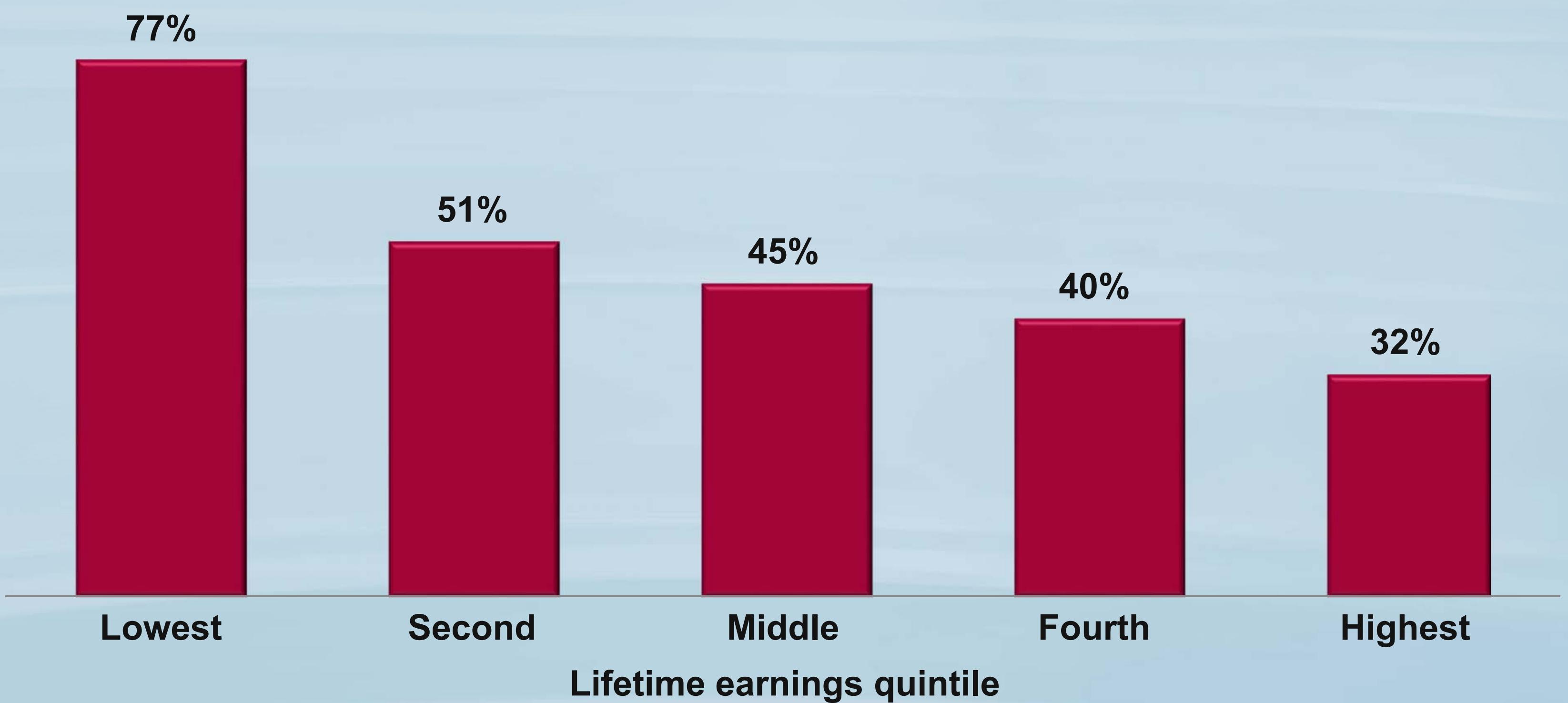
Steadier Than a Stool–U.S. Retirement Resources Form a Pyramid



Source: Investment Company Institute; see Brady, Burham, and Holden, *The Success of the U.S. Retirement System* (December 2012)

Social Security Provides a Strong Base

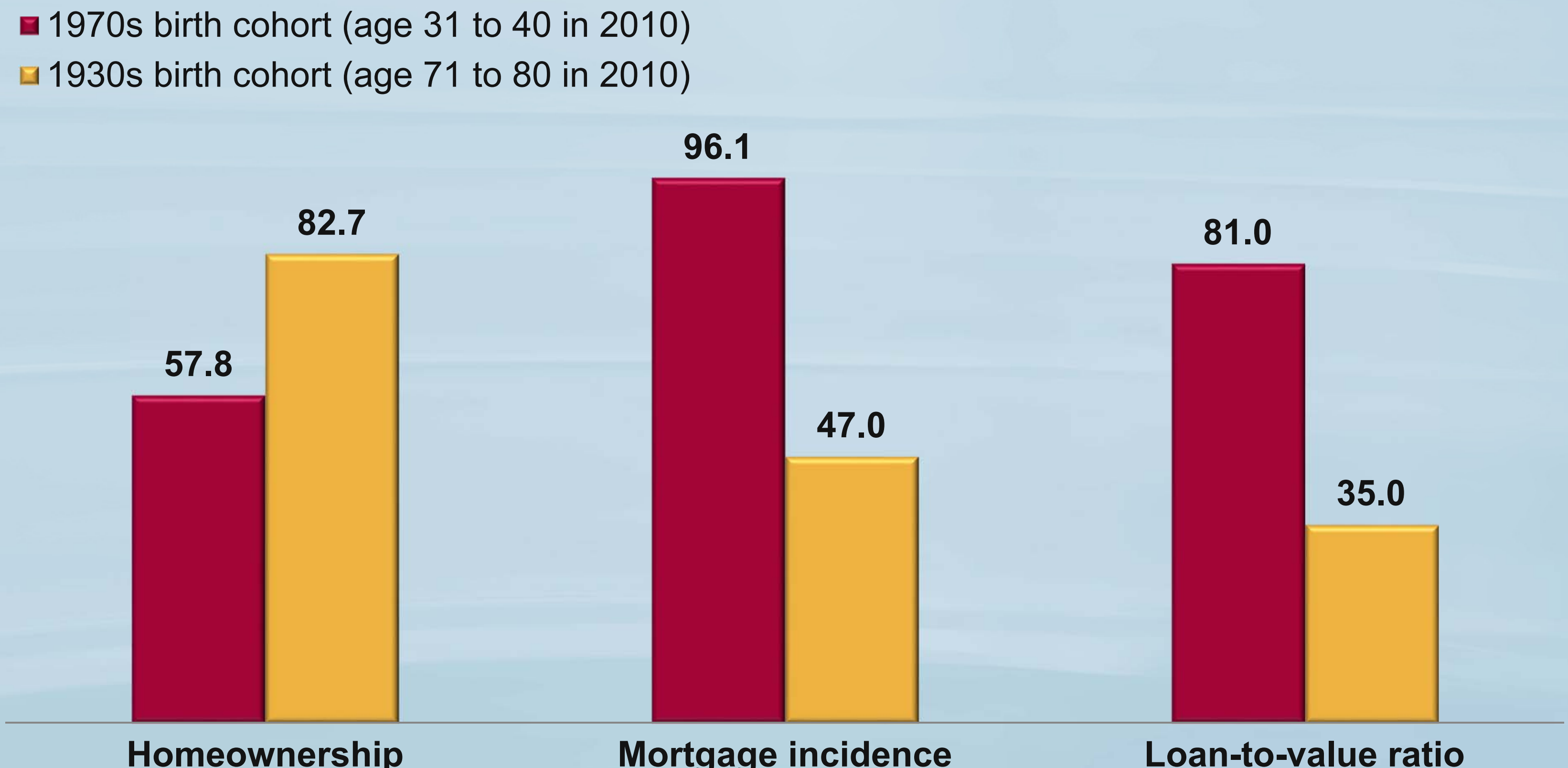
CBO estimates of median first-year benefits relative to average indexed earnings by household lifetime earnings,1940s birth cohort, percent



Source: Congressional Budget Office (see Congressional Budget Office 2013)

Homeownership Rises with Age; Mortgage Burden Falls with Age

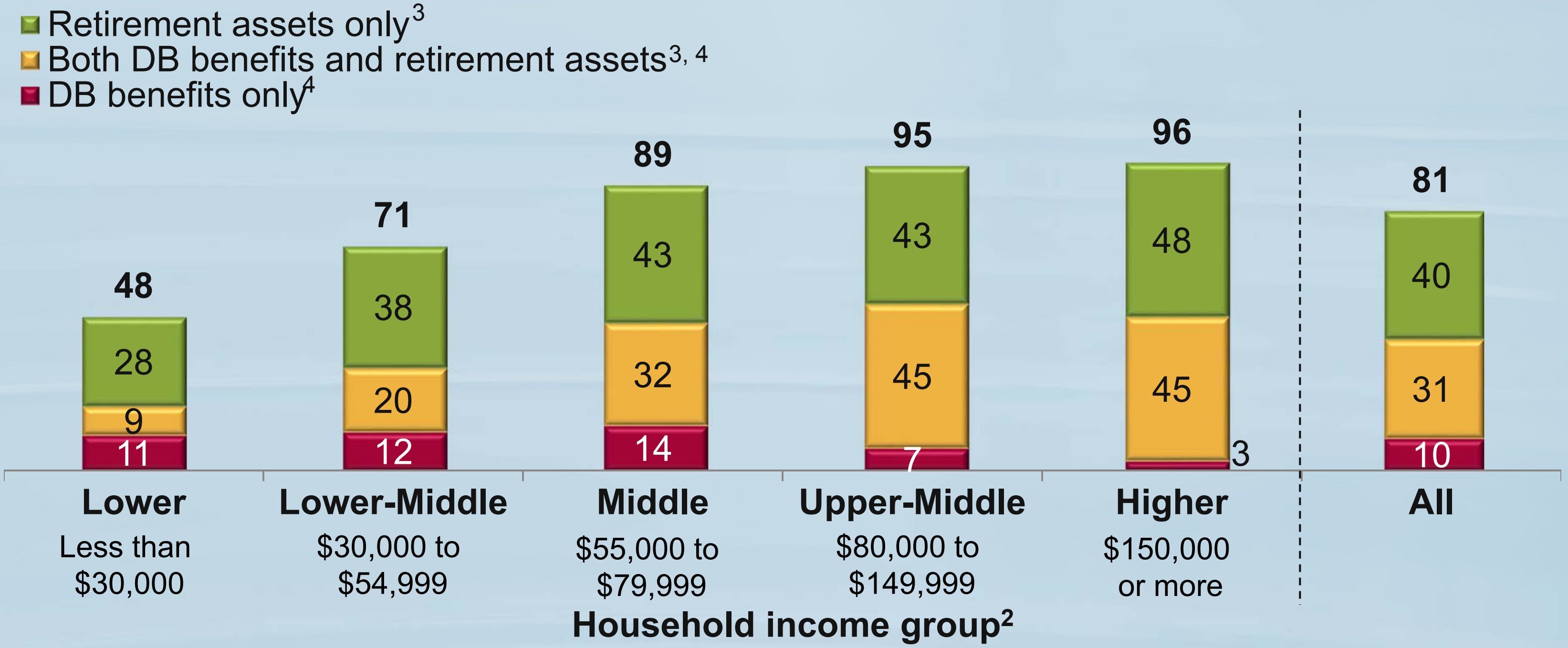
Percentage of households by cohort, 2010



Source: ICI tabulations of the Survey of Consumer Finances; see Brady, Burham, and Holden, *The Success of the U.S. Retirement System* (December 2012)

Near-Retiree Households Across All Income Groups Have Retirement Assets, DB Plan Benefits, or Both

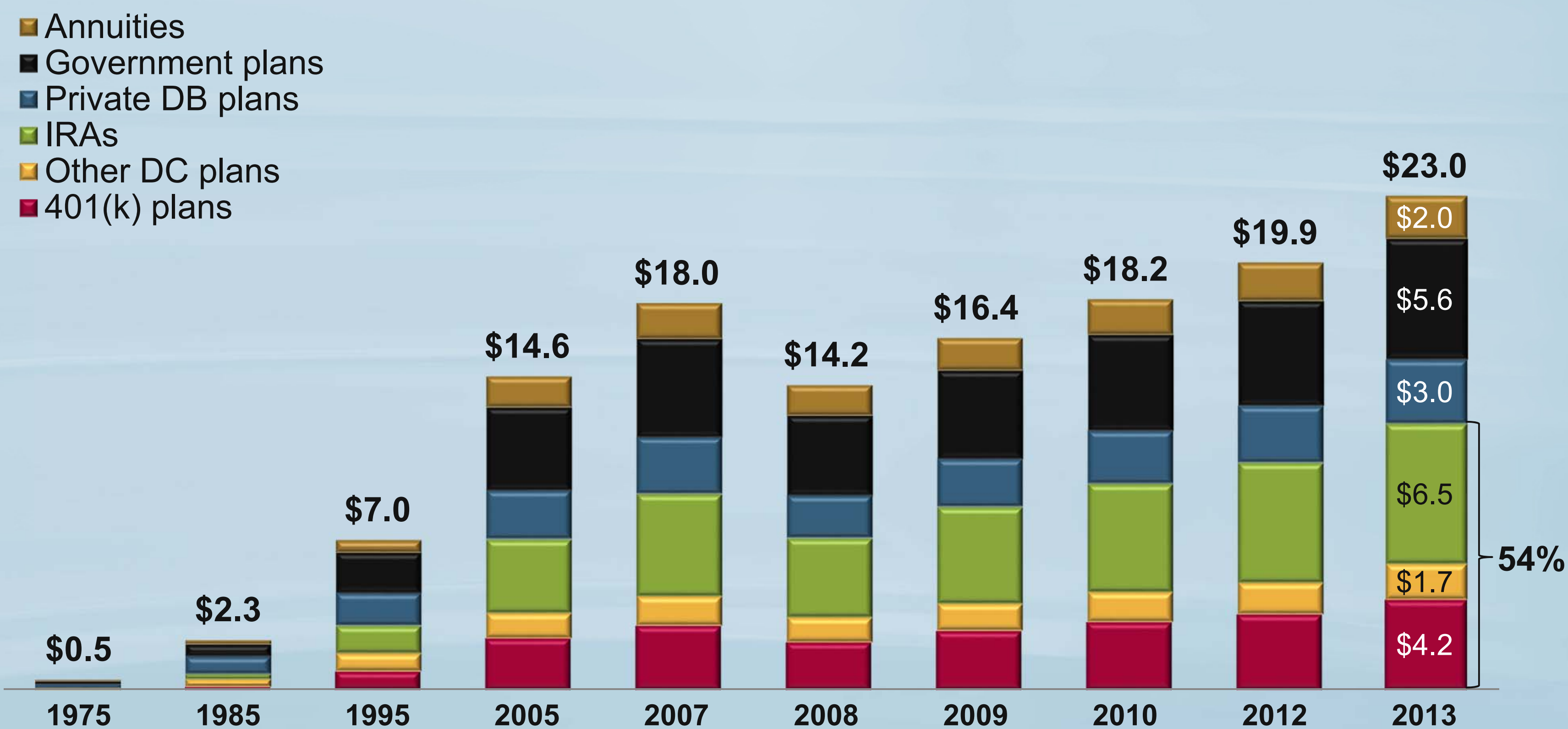
Percentage of near-retiree households[1] by income group,[2] 2010



[1]Near-retiree households are those with a working head of household aged 55 to 64, excluding the top and bottom 1 percent of the income distribution.
[2]Total is household income before taxes in 2009.
[3]Retirement assets include DC plan assets (401(k), 403(b), 457, thrift, and other DC plans) and IRAs (traditional, Roth, SEP, SAR-SEP, and SIMPLE), whether from private-sector or government employers.
[4]DB plan benefits include households currently receiving DB plan benefits and households with the promise of future DB plan benefits, whether from private-sector or government employers.
Note: Components may not add to the total because of rounding.
Source: Investment Company Institute tabulations of the Survey of Consumer Finances; see Brady, Burham, and Holden, *The Success of the U.S. Retirement System* (December 2012)

Assets Earmarked for Retirement Are at a Record Level

Trillions of dollars, end of period, selected dates

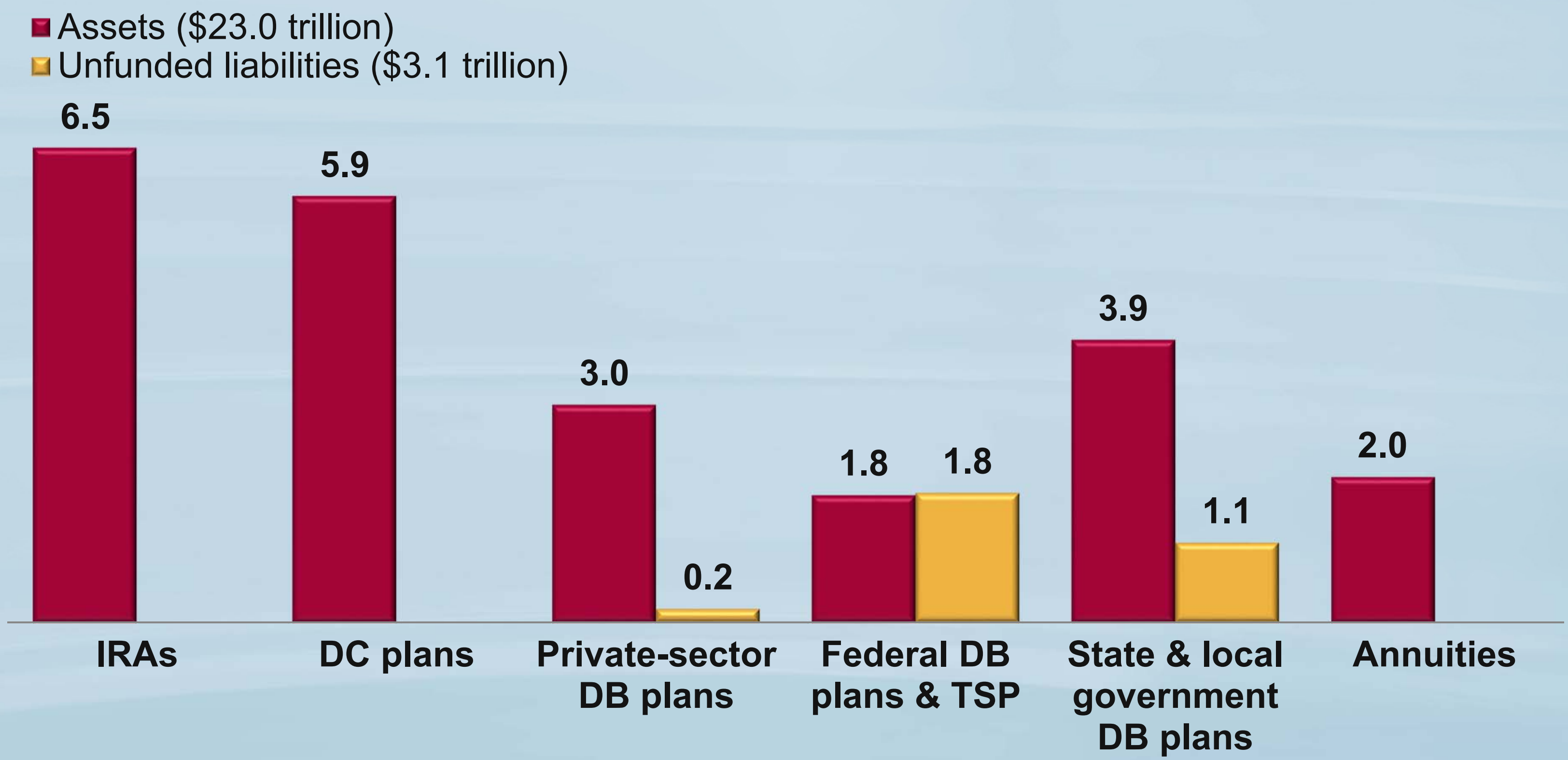


Note: For definitions of plan categories and a complete list of data sources, see Tables 1 and 4 in "The U.S. Retirement Market, Fourth Quarter 2013." Some data are estimated.

Source: Investment Company Institute, *The U.S. Retirement Market, Fourth Quarter 2013* (March 2014)

Retirement Assets and Unfunded Liabilities

Trillions of dollars, end of period, 2013:Q4

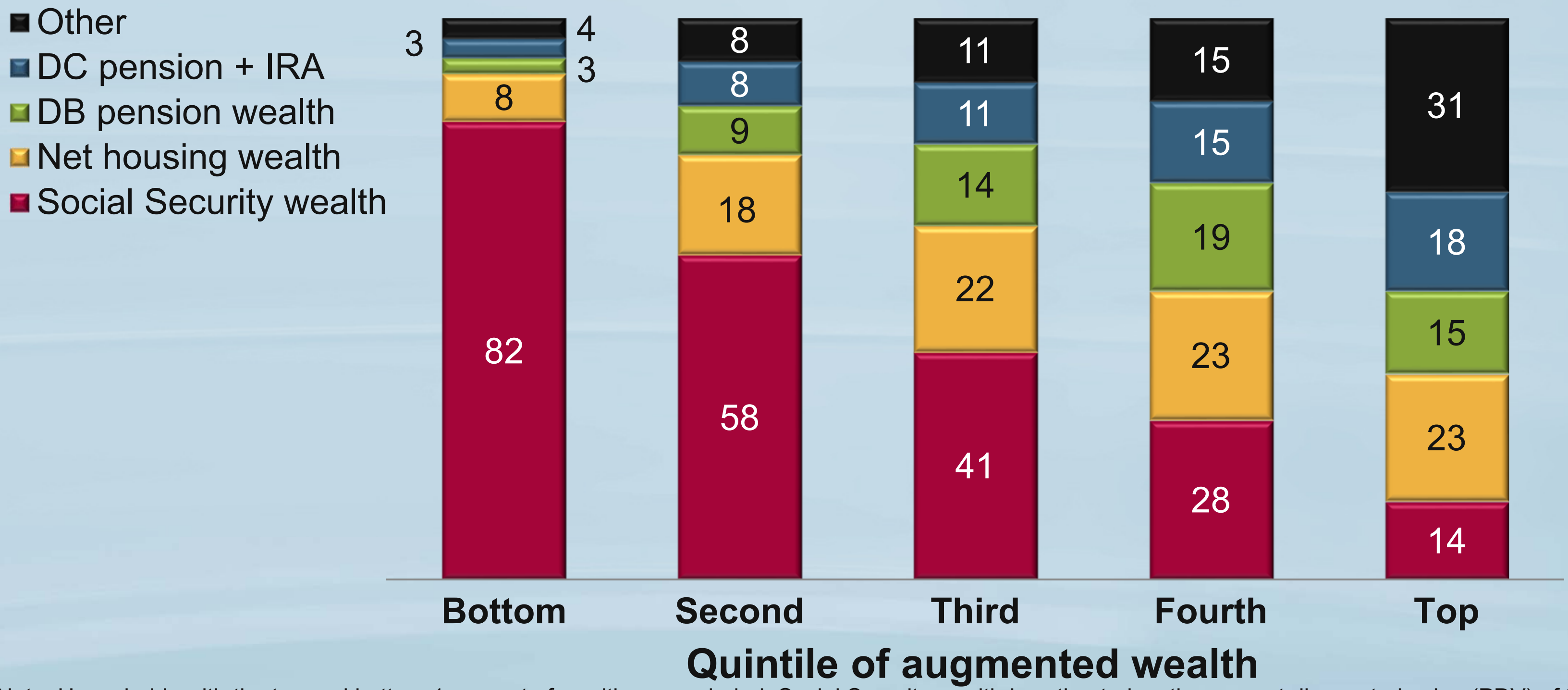


Note: For definitions of plan categories and a complete list of data sources, see Tables 1 and 4 in "The U.S. Retirement Market, Fourth Quarter 2013." Some data are estimated.

Sources: Investment Company Institute, *The U.S. Retirement Market, Fourth Quarter 2013* (March 2014) and U.S. Federal Reserve Board 2014

The Retirement Resource Pyramid Varies Across Households

Percentage of wealth by wealth quintile for households with at least one member born between 1948 and 1953; balance sheet in 2006



Note: Households with the top and bottom 1 percent of wealth are excluded. Social Security wealth is estimated as the present discounted value (PDV) of the stream of Social Security benefits. Net housing wealth is the value of the home less mortgages. DB pension wealth is estimated as the PDV of the stream of DB benefits. Retirement assets include DC plan assets (401(k), 403(b), 457, thrift, and other DC plans) and IRAs (traditional, Roth, SEP, SAR-SEP, and SIMPLE). DB pension and retirement assets are derived from work in both the private-sector and the government sector.
Source: Investment Company Institute tabulation derived from Gustman, Steinmeier, and Tabatabai (2009) using Health and Retirement Study (HRS) data

A Close Look at Retirement Preparedness in America

- Retirement resources have risen.
- Variety of measures of adequacy:
  - (1) projection of replacement rates (Boston College);
  - (2) simulation model of accumulation and decumulation to predict who will run out of resources and when (EBRI);
  - (3) comparison of actual wealth at retirement with “optimal” wealth at retirement (Scholz & Seshadri; U of Wisconsin); and
  - (4) testing whether a household can finance a predicted consumption path during retirement given its resources (Hurd & Rohwedder; RAND).
- Majority are adequately prepared for retirement.
- Identify and focus efforts on specific pockets at risk.

Source: Investment Company Institute, *2014 ICI Retirement Summit: A Close Look at Retirement Preparedness in America*

Focus on Retirement Saving Increases with Age

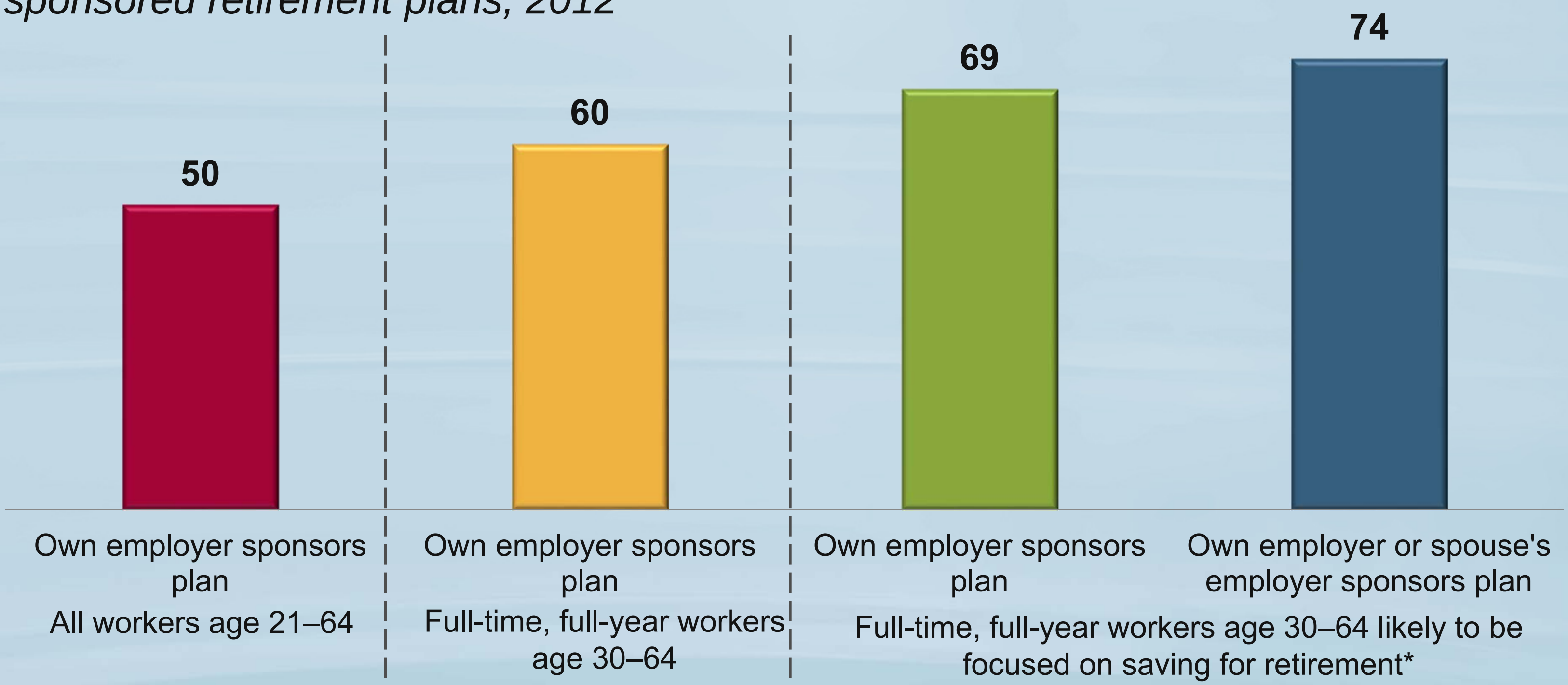
Percentage of U.S. households by age of household head, 2010

Primary reason for saving	Age of head of household				
	21 to 29	30 to 39	40 to 44	45 to 54	55 to 64
Retirement	11	20	29	41	48
Liquidity (cash on hand, emergencies, unexpected needs)	39	37	34	32	30
Education or home purchase	19	21	19	11	4
Purchases	12	9	9	10	10
For the family	13	8	5	3	3
Investments or no particular reason	4	2	1	1	1
Cannot or do not save	2	3	2	3	4
Total	100	100	100	100	100

Note: Components may not add to the total because of rounding.
Source: Investment Company Institute tabulations of the 2010 Survey of Consumer Finances

Workers Likely to Focus on Retirement Saving Are More Likely to Have Coverage

Percentage of private-sector wage and salary workers with access to employer-sponsored retirement plans, 2012



*Full-time, full-year workers who earn $45,000 or more and are aged 30 to 64 or earn $26,000 to $44,999 and are aged 45 to 64. Among full-time, full-year workers aged 35 to 44, $26,000 represents the top earnings of the 20th percentile of annual earnings and $45,000 represents the top earnings for the 50th percentile of annual earnings.

Source: Investment Company Institute tabulations of March 2013 Current Population Survey; see Brady and Bogdan, "Who Gets Retirement Plans and Why, 2012," *ICI Research Perspective* (October 2013)

Appendix

- The Role of IRAs in U.S. Retirement Planning
- Changing Pattern of Retirement Plan Accumulations Among Near-Retiree Households
- Hurd & Rohwedder Adequacy Measure

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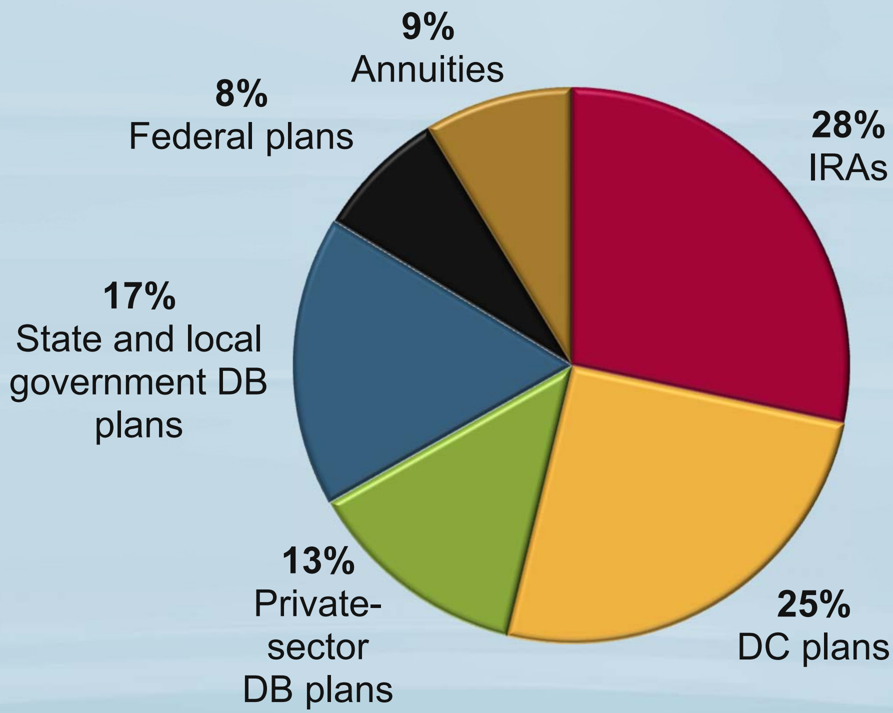
IRAs Are the Single Largest Component of U.S. Retirement Assets

Percentage of total, 2013:Q4

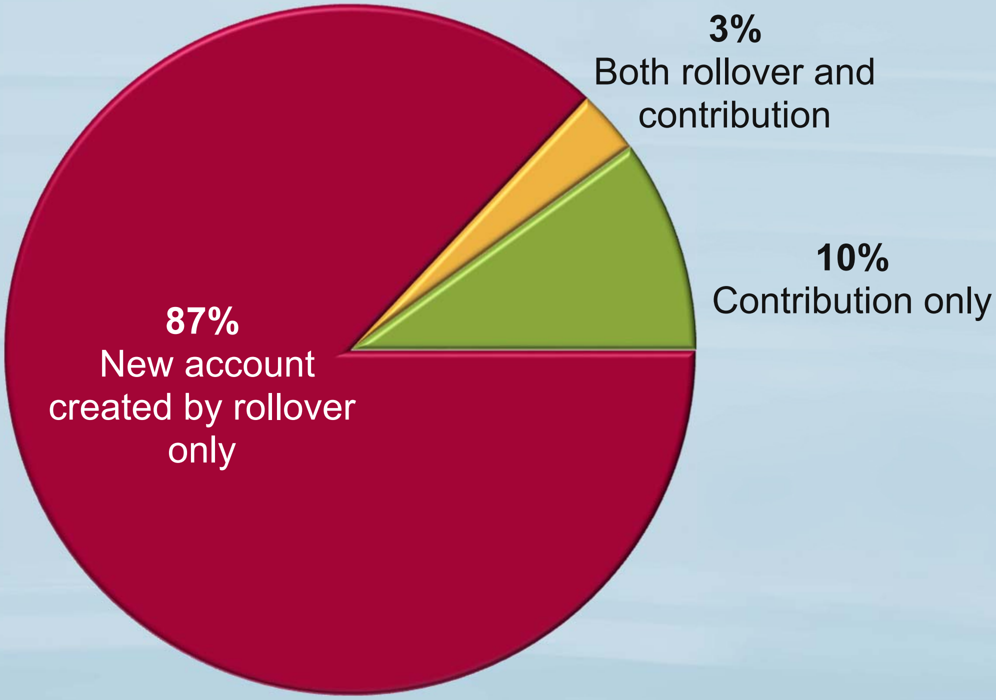


Total retirement assets: $23.0 trillion

Note: For definitions of plan categories and a complete list of data sources, see Table 1 in *The U.S. Retirement Market, Fourth Quarter 2013*. Some data are estimated.
Source: Investment Company Institute, *The U.S. Retirement Market, Fourth Quarter 2013* (March 2014)

New Traditional IRAs Are Typically Opened with a Rollover

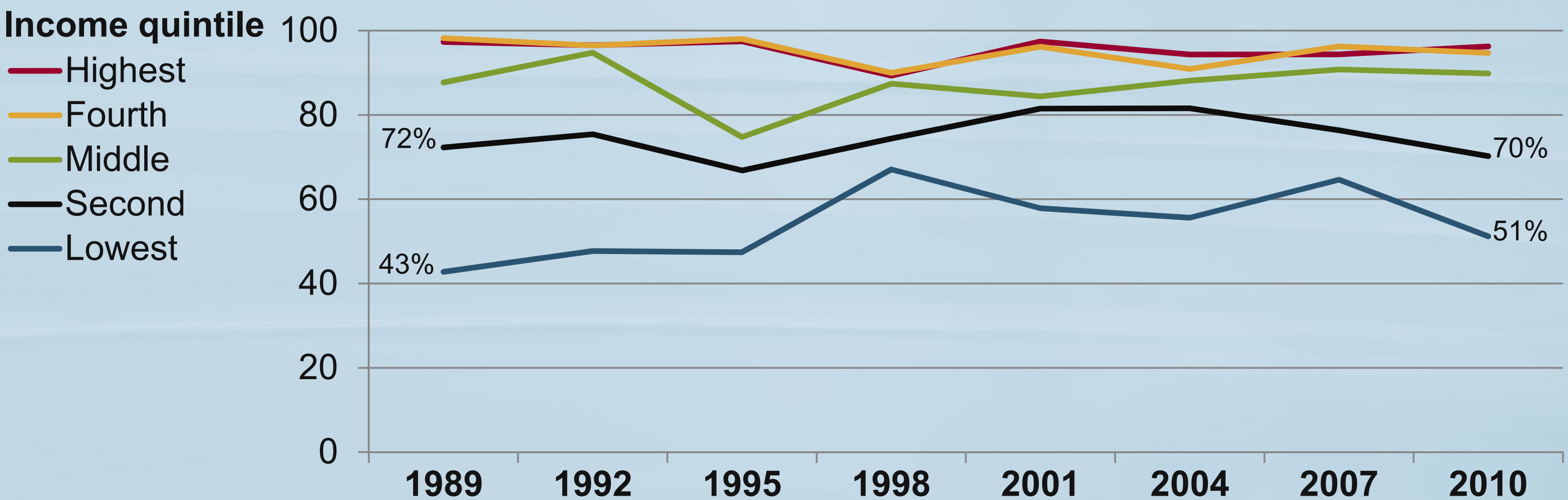
Percentage of new traditional IRAs, 2012



Note: The sample is 0.7 million new traditional IRA investors, aged 25 to 74, in The IRA Investor Database in 2012. This analysis excludes 0.2 million new traditional IRAs that resulted from investors changing financial services firms.
Source: The IRA Investor Database™; see Holden and Bass, "The IRA Investor Profile: Traditional IRA Investors' Activity, 2007–2012," *ICI Research Report* (March 2014)

Share of Lower-Income Near-Retiree Households with Retirement Accumulations Is Up

Percentage of near-retiree households with retirement accumulations by income quintile, 1989–2010*



	1989	1992	1995	1998	2001	2004	2007	2010
All near-retiree households:	80	82	77	82	84	82	85	81

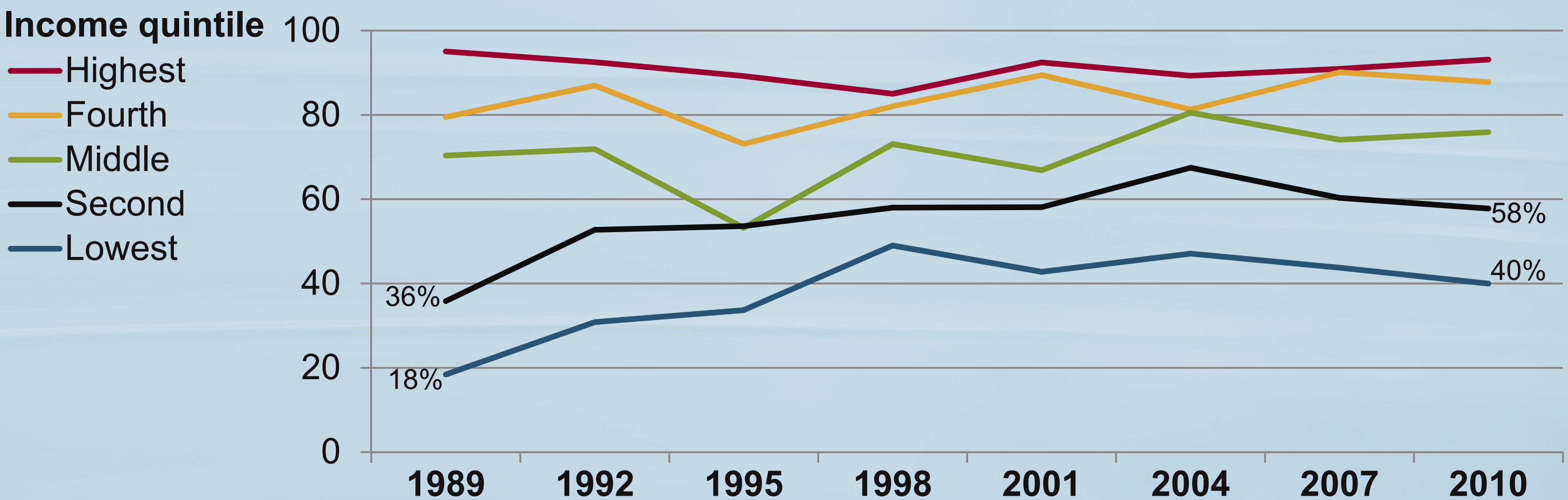
*Near-retiree households are households with a working head age 55 to 64 in the year indicated, excluding the top and bottom 1 percent of the income distribution.

Note: Retirement accumulations include retirement assets and DB benefits. Retirement assets include DC plan assets (401(k), 403(b), 457, thrift, and other DC plans) and IRAs (traditional, Roth, SEP, SAR-SEP, and SIMPLE), whether from private-sector or government employers. DB benefits include households currently receiving DB benefits and households with the promise of future DB benefits, whether from private-sector or government employers.

Source: Investment Company Institute tabulations of the Survey of Consumer Finances

Share of Near-Retiree Households with DC and IRA Assets Has Increased

Percentage of near-retiree households with retirement assets by income quintile, 1989–2010*



	1989	1992	1995	1998	2001	2004	2007	2010
All near-retiree households:	60	67	61	69	70	73	72	71

*Near-retiree households are households with a working head age 55 to 64 in the year indicated, excluding the top and bottom 1 percent of the income distribution.

Note: Retirement assets include DC plan assets (401(k), 403(b), 457, thrift, and other DC plans) and IRAs (traditional, Roth, SEP, SAR-SEP, and SIMPLE), whether from private-sector or government employers.

Source: Investment Company Institute tabulations of the Survey of Consumer Finances

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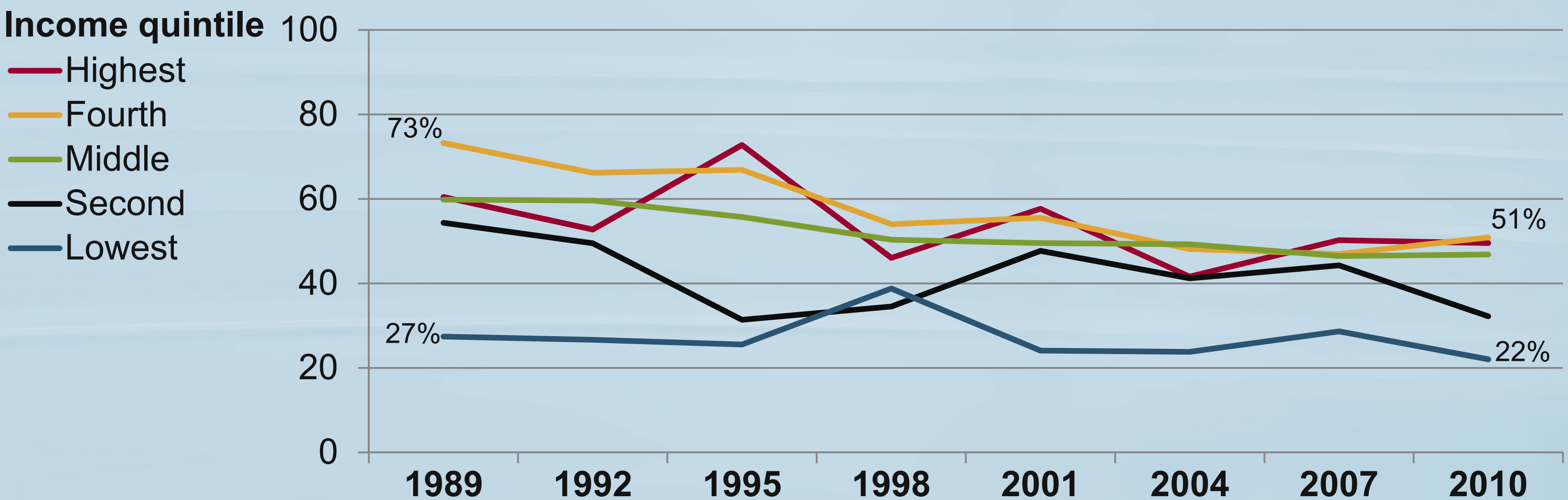
Share of Near-Retiree Households with DB Benefits Has Declined

Percentage of near-retiree households with DB benefits by income quintile, 1989–2010*



All near-retiree households:	55	51	50	45	47	41	43	40

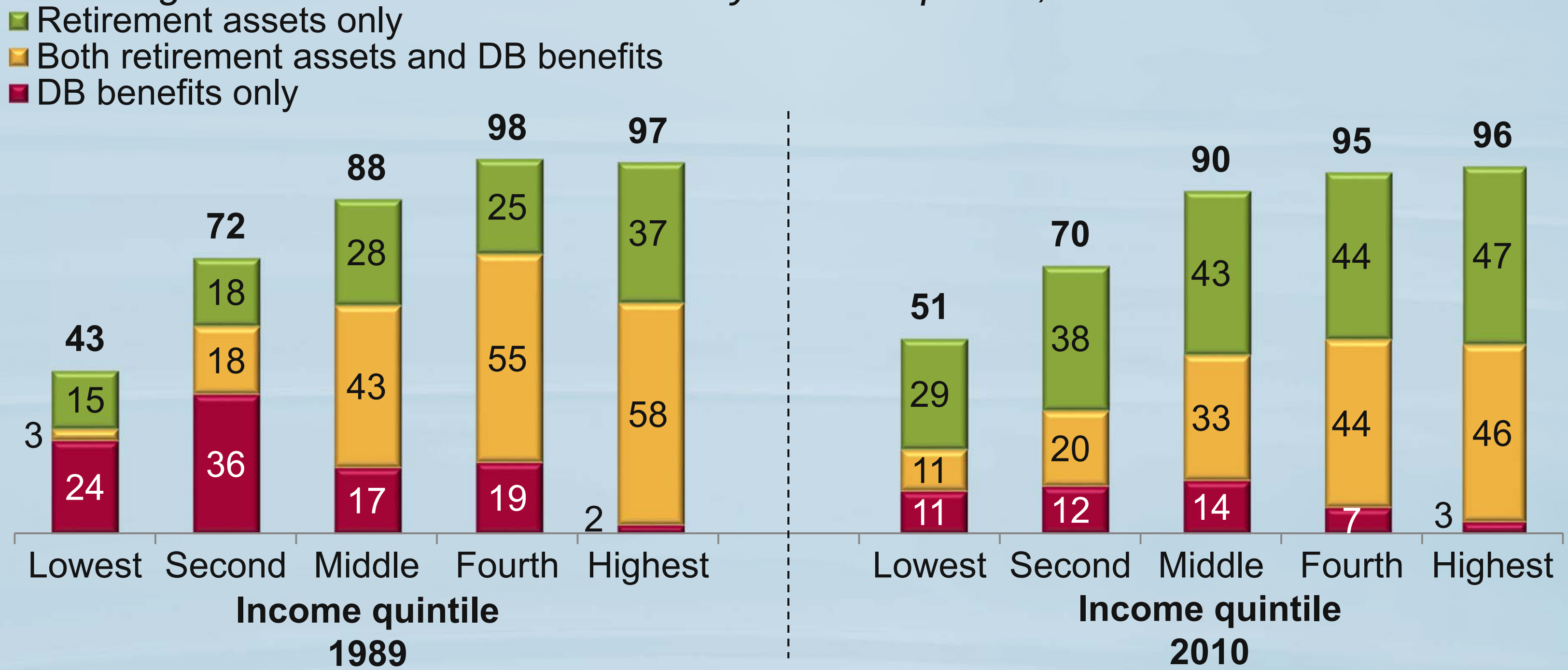
*Near-retiree households are households with a working head age 55 to 64 in the year indicated, excluding the top and bottom 1 percent of the income distribution.

Note: DB benefits include households currently receiving DB benefits and households with the promise of future DB benefits, whether from private-sector or government employers.

Source: Investment Company Institute tabulations of the Survey of Consumer Finances

Lower-Income Near-Retiree Households Are More Likely to Have Retirement Accumulations

Percentage of near-retiree households by income quintile, 1989 and 2010*



*Near-retiree households are households with a working head age 55 to 64 in the year indicated, excluding the top and bottom 1 percent of the income distribution.

Note: Retirement accumulations include retirement assets and DB benefits. Retirement assets include DC plan assets (401(k), 403(b), 457, thrift, and other DC plans) and IRAs (traditional, Roth, SEP, SAR-SEP, and SIMPLE), whether from private-sector or government employers. DB benefits include households currently receiving DB benefits and households with the promise of future DB benefits, whether from private-sector or government employers.

Source: Investment Company Institute tabulations of the Survey of Consumer Finances

Hurd & Rohwedder Adequacy Measure

Percentage of individuals age 66–69 with high chances (95% or more) of dying with positive wealth

	Singles			Couples		
	All	Male	Female	All	Male	Female
Less than high-school	33.5	60.6	26.7	66.8	65.5	68.0
High-school	54.4	61.9	51.9	77.4	74.7	78.8
Some college	50.8	62.5	47.0	76.2	73.4	77.8
College and above	61.8	65.0	60.9	85.1	83.3	86.6
All	**49.3**	**62.2**	**45.4**	**76.8**	**74.6**	**78.2**

Source: Hurd and Rohwedder 2012

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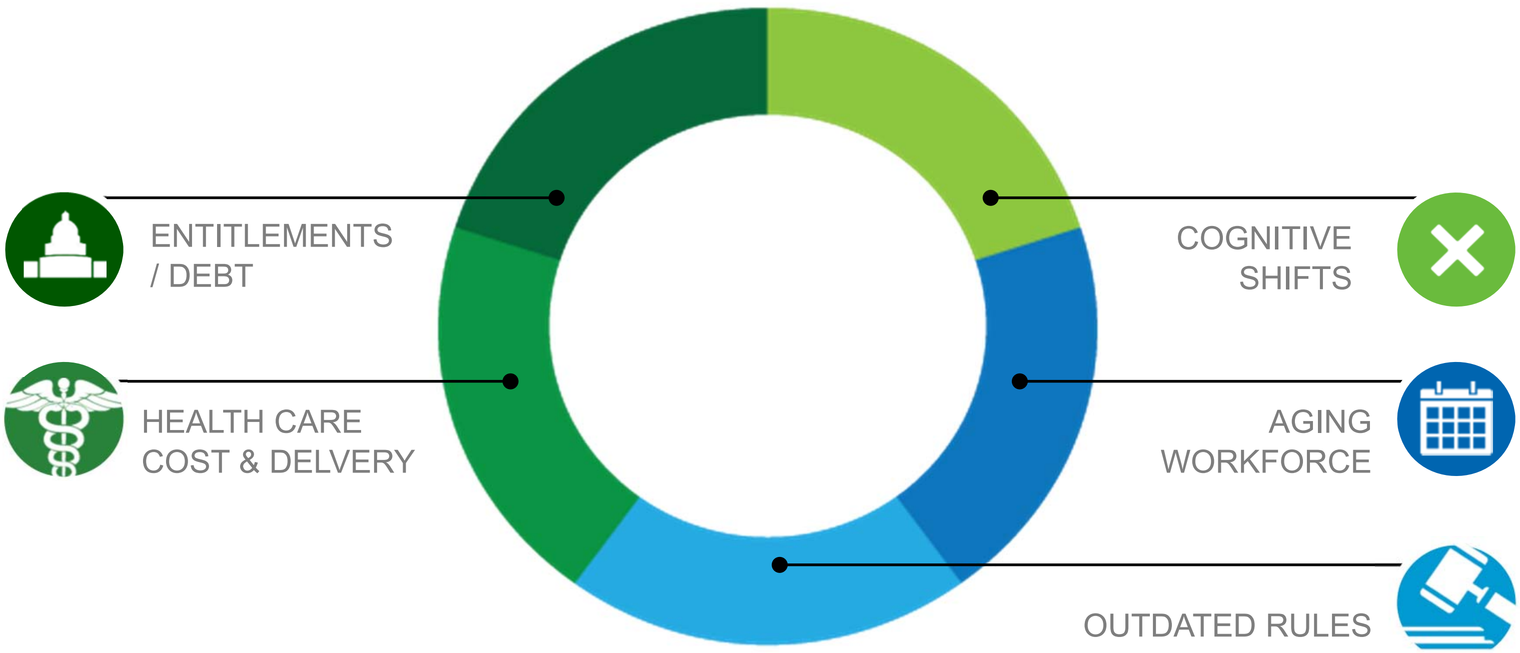
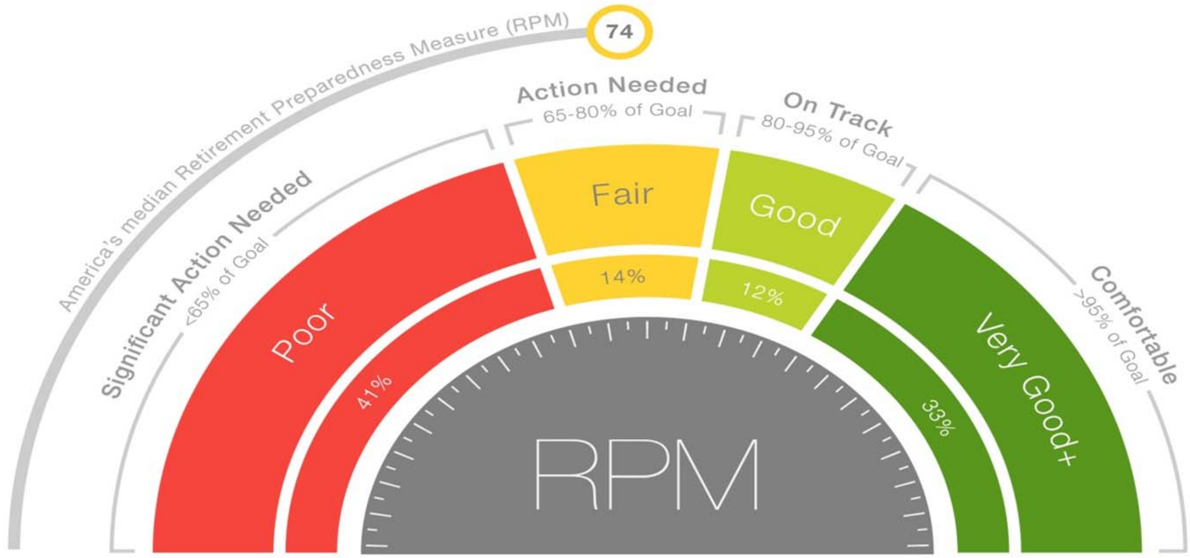
Five economic and political factors



State of retirement readiness - fair



Retirement Preparedness Measure

According to Fidelity Investments®, more than half of American households are projected to face a shortfall covering essential expenses in retirement

eReview# 671114.1.0

SOURCE: The Retirement Preparedness Measure is derived from the results of the 2013 Retirement Savings Assessment, a national online survey of 2,265 working households conducted from June through October by GfK Public Affairs. Enhanced modeling was then provided by Fidelity's Strategic Advisers.

Boomers
81% of goal - Good

Gen Y
62% of goal – Poor

Poor Health reduces goal by 20%

Benefit designs are evolving

FROM	→	TO
Supplemental savings	→	Primary retirement
Generic contributions	→	Outcome driven
Target date funds	→	Customized strategies
Separate health & retirement	→	Integration & optimization

Auto features – first generation

Continued increases help drive better savings behaviors—which can yield better outcomes

93%
of auto increase participants do not opt out

36%
of all deferral increases are due to auto increase programs

64%
of all deferral increases for ages 20–24 are due to auto increase programs

Source: Fidelity investments record kept data of 20,500 corporate DC plans and 11.5M participants as of 12/31/13

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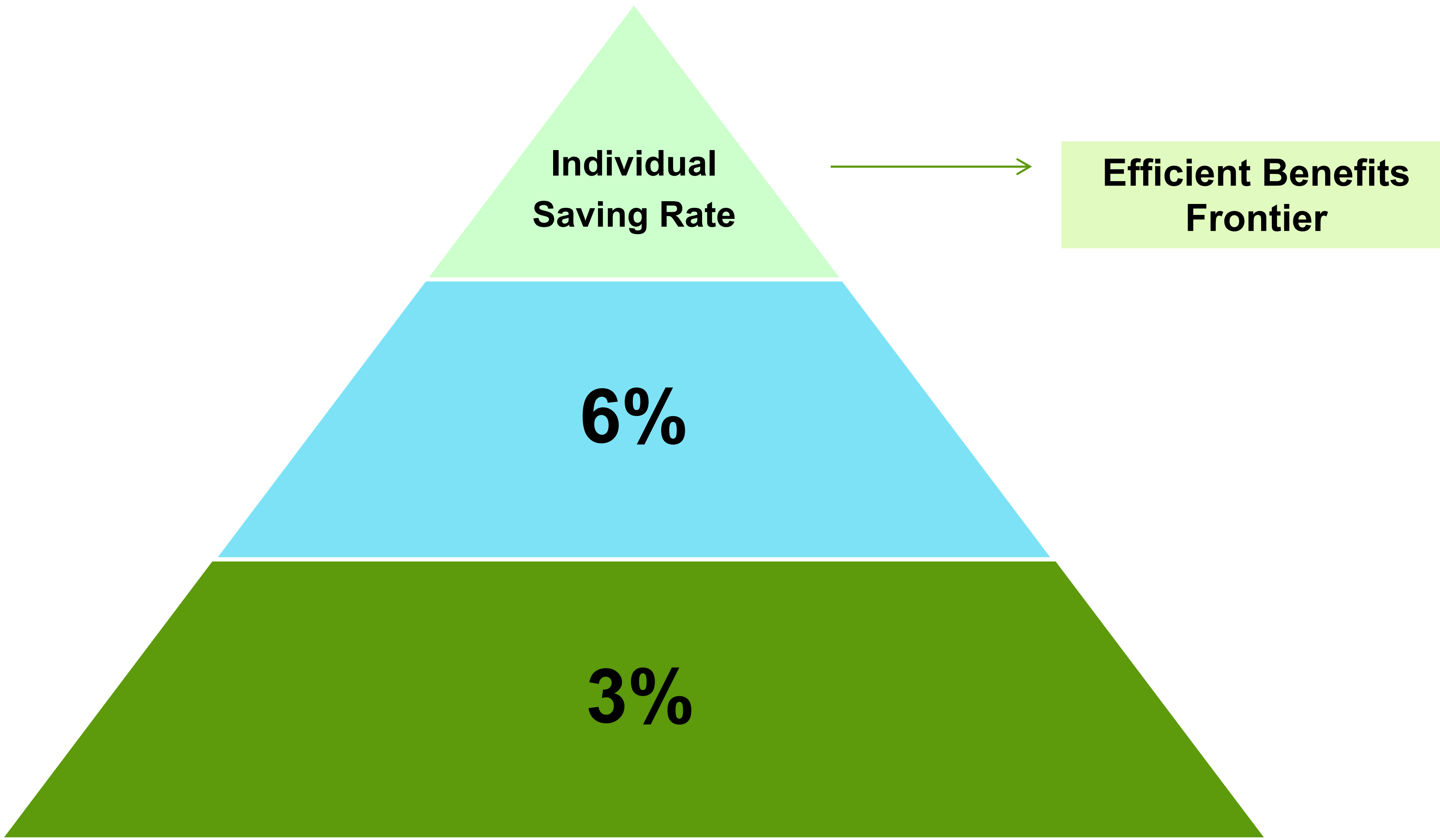
Auto – future generations



“Crisis” Management: Uncertainty and the Workplace

EBRI Policy Forum – May 15, 2014

Diane Oakley
Executive Director
NIRS

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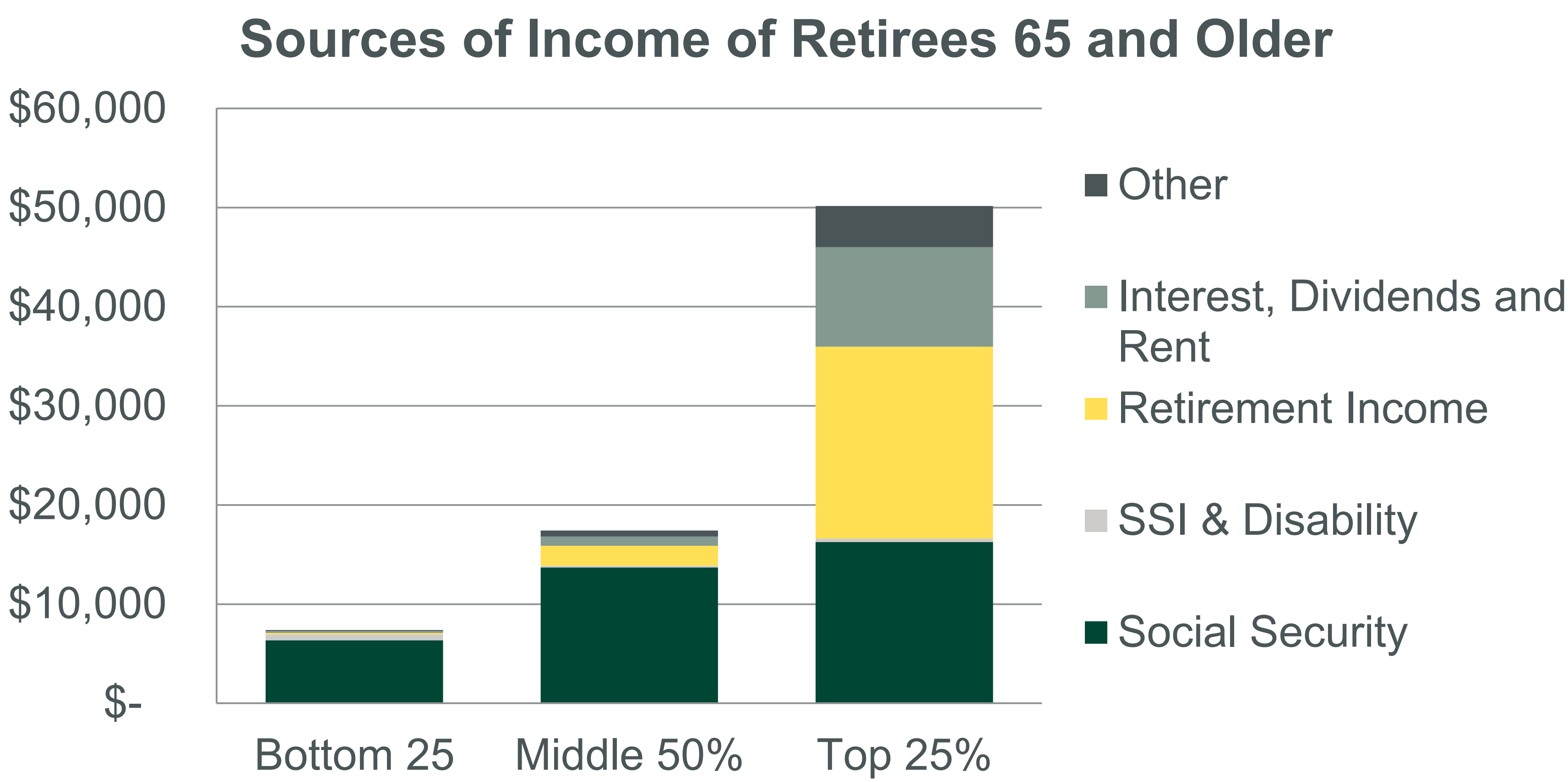
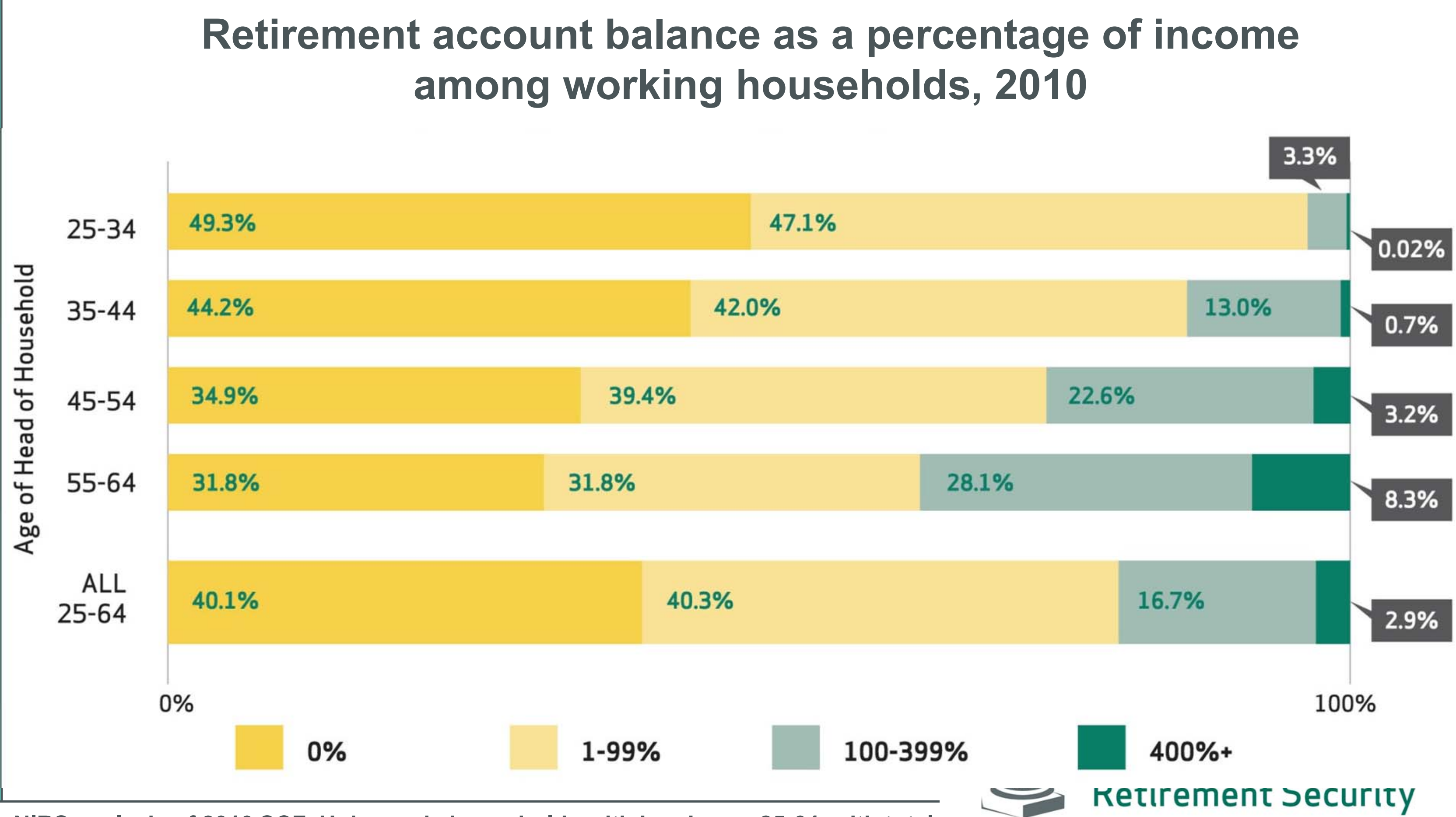
Social Security is Major Source of Income for 75 Percent of Retirees 65+



NATIONAL INSTITUTE ON Retirement Security

Source: NIRS Calculations for retirees who did not work from the March 2012 CPS extract from IPUMS

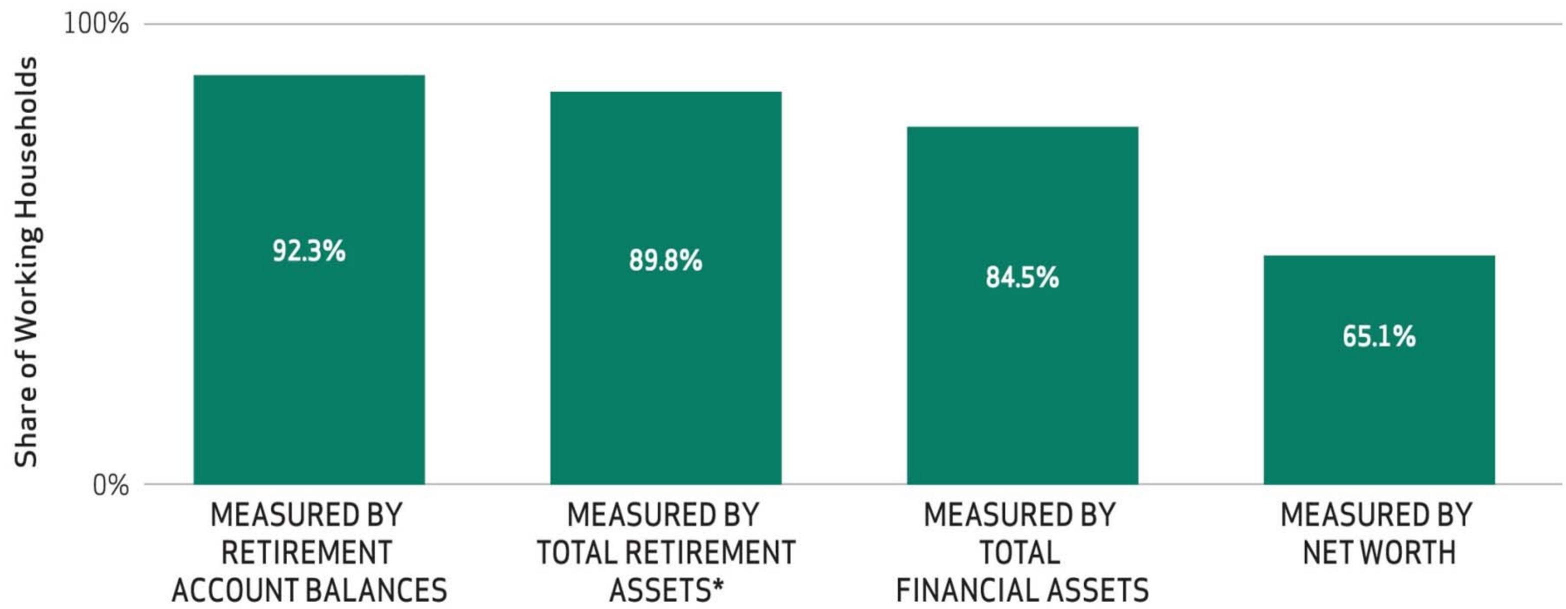
4 out of 5 Households Have Less than One Times Their Income in Retirement Savings



Source: NIRS analysis of 2010 SCF. Universe is households with heads age 25-64, with total earnings ≥ $5,000 and < $500,000 and total income < $1M.

Retirement Savings Benchmarks:
Large Majority of Working Households Fall Short

Share of working households that do not meet retirement savings targets for their age, by type of measure, 2010.



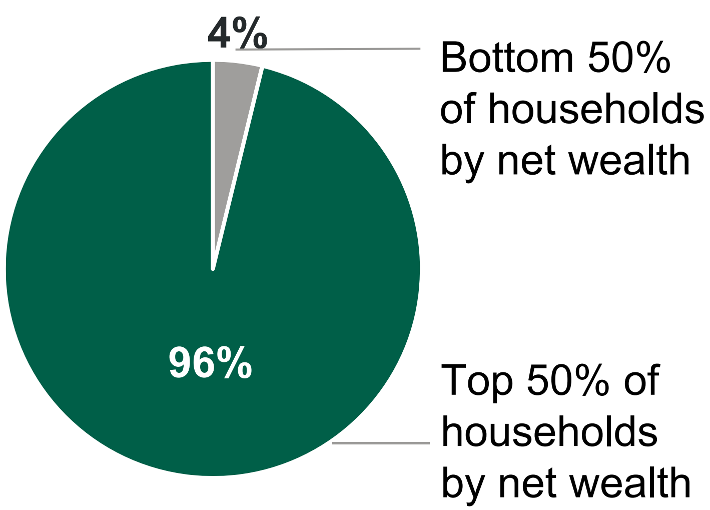
"Total Retirement Assets" measure includes retirement account balances reported in SCF and DB pension assets imputed by N. Rhee of NIRS. *

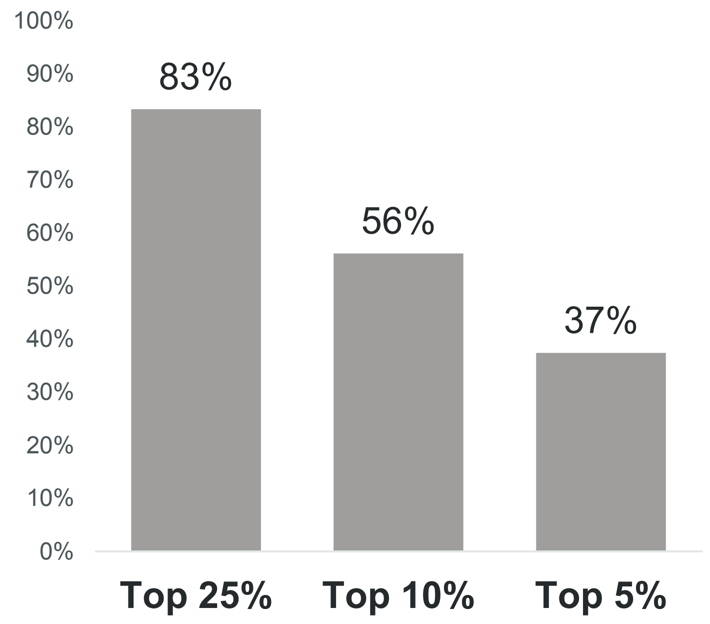
NATIONAL INSTITUTE ON Retirement Security

Source: NIRS's analysis of 2010 SCF based on retirement savings targets adapted from Fidelity Age-Based Savings Guidelines. Universe is households with heads age 25-64, with total earnings ≥ $5,000 and < $500,000 and total income < $1M.

Distribution of Baby Boomer Retirement Account Wealth, 2010

Percentage of Retirement Account Assets





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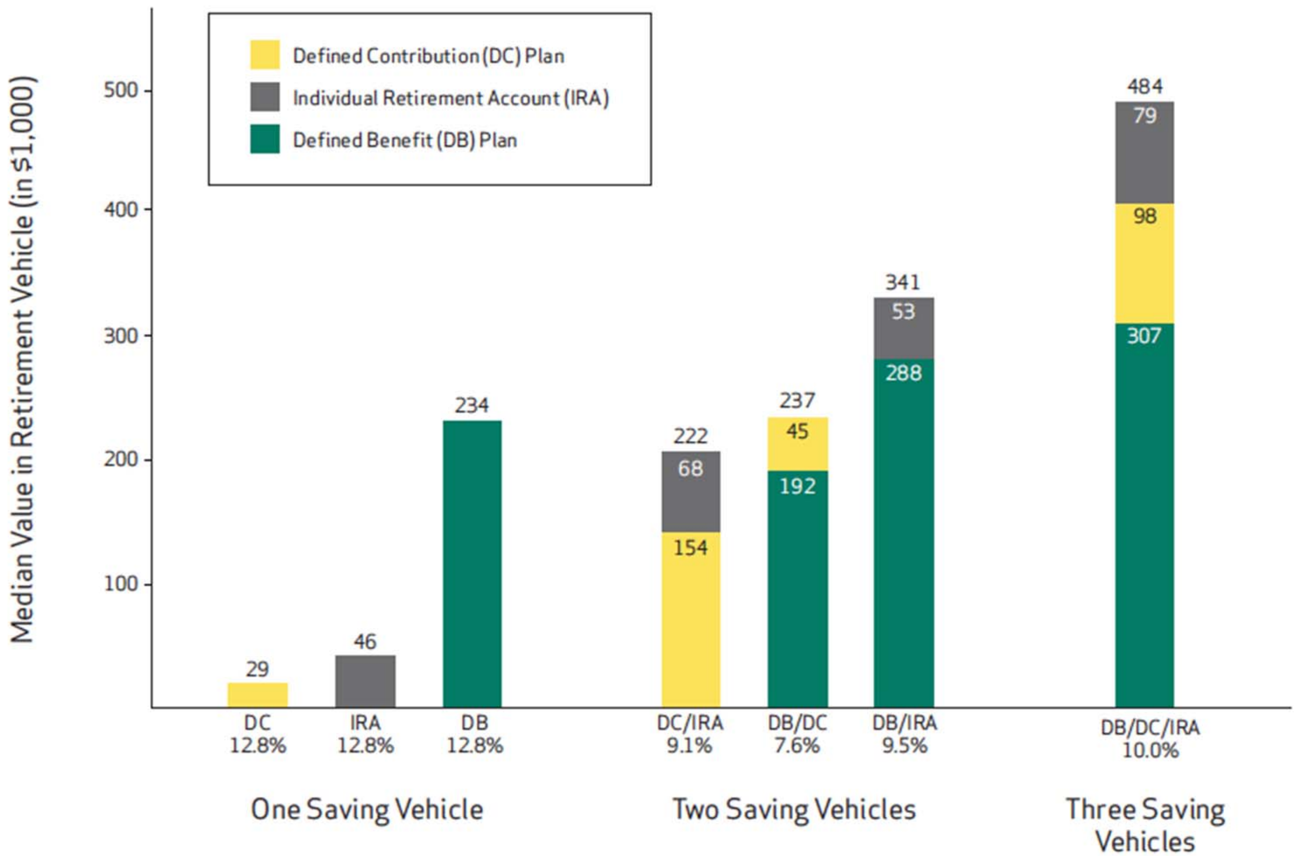
Source: NIRS analysis of 2010 Survey of Consumer Finances. Retirement wealth includes assets held in retirement accounts, e.g., 401(k)s, IRAs, and KEOGH plans.

Retirement Savings: DC, IRA and DB Share of Ownership and Median Value

Near Retirement Households(age 55-64) - 73.6 percent with retirement plan/account



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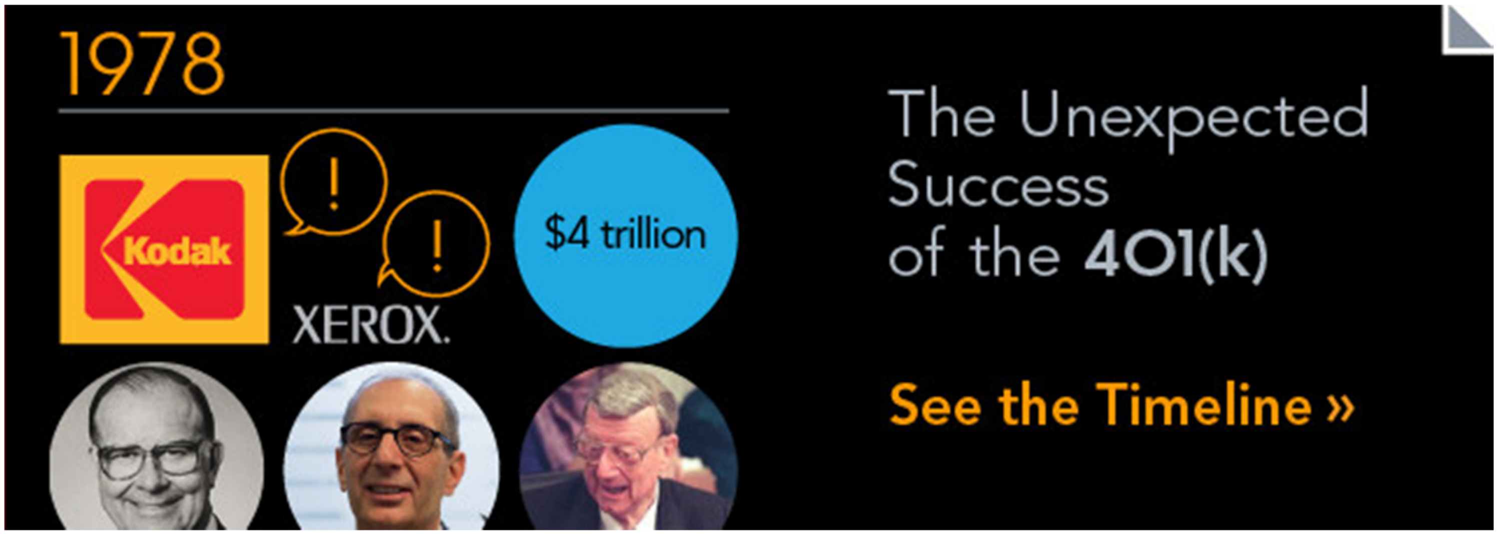
Source: Tabulations of 2010 Survey of Consumer Finance, copyright James Poterba in "Retirement Security in an Aging Society," (Feb 2014), NBER Working Paper.

Accidental Success of 401(k)s

Bloomberg News
(graphics by Dave Merrill)



Disparity Among Plans

BloombergBusinessweek

Tapping the 401(k)

Panel 2: Be Careful What You Wish For: The Impact of the ACA on Employment-Based Health Benefits

EBRI-ERF Policy Forum #74
Thursday, May15, 2014

Panel 3: Healthy, Wealthy, and Why – In the Midst of Uncertainty, Can Financial Wellness Work?

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"Crisis" Management: Uncertainty and the Workplace

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