



International Comparisons – Are There Lessons to be Learned in Plan Design?

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## Agenda

- Common Causes
- Diverse Responses
- Application to the U.S. System
  - Trends affecting the U.S.
  - Lessons to Learn from Plan Design

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# Common Causes

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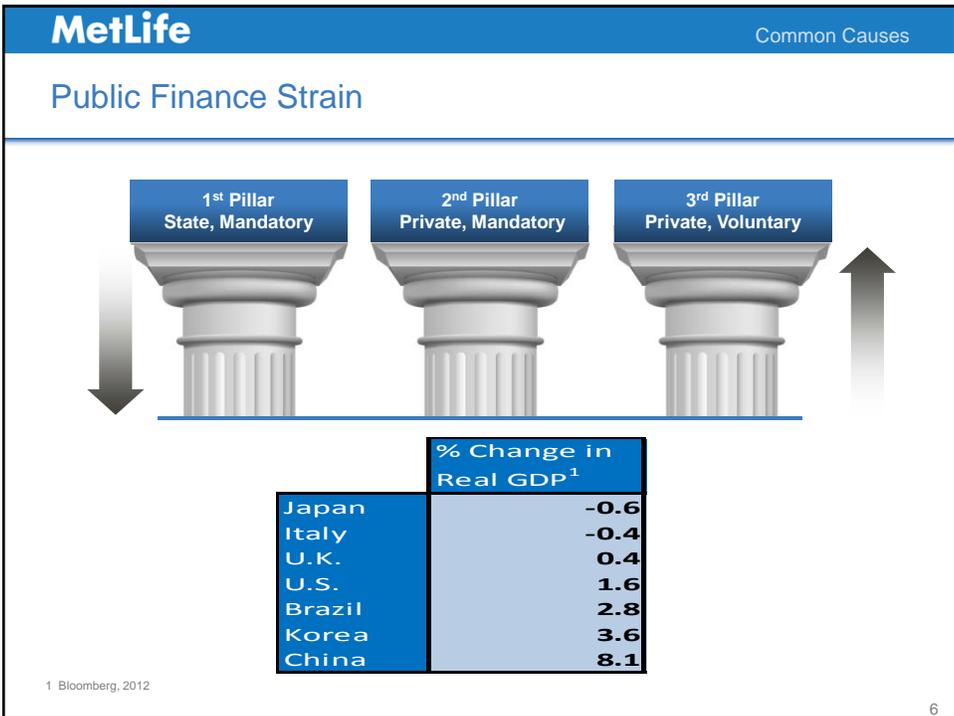
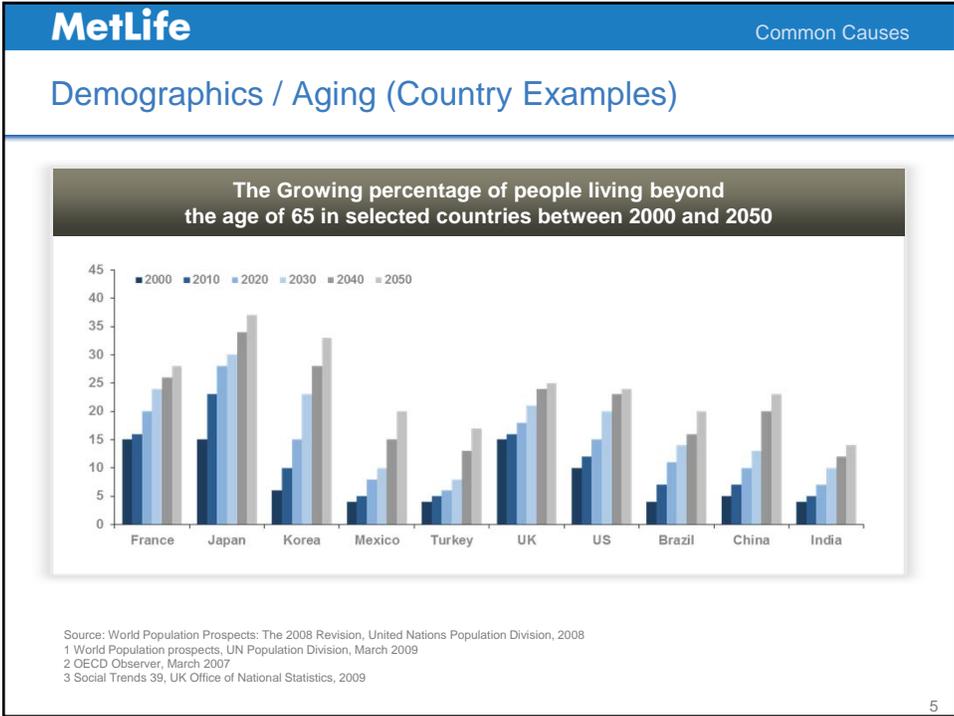
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## Common Causes

- Sustainability threats to Public/Corporate Savings
  - Demography
  - Economic Growth Trends
  - Inflation
- Adequacy Threats to Private/Individual Savings
  - Savings Level
  - Annuitization Rates
  - Cost Threats – Inflation/Healthcare

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<h2 data-bbox="389 325 909 367">Adequacy of Individual Savings</h2>	
<ul style="list-style-type: none"><li data-bbox="454 504 1209 577">• U.S. – near retiree median 401(K) plan in 2011 held \$149,400<sup>1</sup><ul style="list-style-type: none"><li data-bbox="503 577 1096 609">➢ Households 60-62, with a 401(k) plan from work</li><li data-bbox="503 609 998 640">➢ Included plans from previous employers</li><li data-bbox="503 640 1209 703">➢ Would generate an annuity of only \$9,073 – about 10% of their employment income level</li></ul></li></ul>	
<p data-bbox="373 924 828 945"><small>1 The Wall Street Journal – Retiring Boomers Find 401(K) Plans Fall Short; Feb 2011</small></p> <p data-bbox="1250 945 1266 966"><small>7</small></p>	

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<h2 data-bbox="389 1197 714 1239">Diverse Responses</h2>
<ul style="list-style-type: none"><li data-bbox="454 1333 820 1365">• Increasing Contributions</li><li data-bbox="454 1407 868 1438">• Increasing Retirement Ages</li><li data-bbox="454 1480 1006 1512">• Encouraging Annuitization of Benefits</li><li data-bbox="454 1554 812 1585">• Shift towards DC Plans</li><li data-bbox="454 1627 747 1659">• Renationalization?</li></ul>
<p data-bbox="1250 1816 1266 1837"><small>8</small></p>

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# Application to the U.S. System

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**MetLife** Application to the U.S. System

## U.S. Not Immune to Global Trends

- **Demographics – aging population<sup>1</sup>**
  - 2010 – 18.2% of population 60 + years old
  - 2050 – 27.4% of population 60+ years old
- **Public Finance Strain**
  - 2010 - First Social Security Deficit since 1983<sup>2</sup>
- **Inadequate savings for retirement compounded by<sup>3</sup>:**
  - Living longer
  - Saving too little
  - Underestimating health care costs

1. Axco Report, 2011  
2. Status of the Social Security and Medicare Programs, A Summary of the 2011 Annual Reports  
3. Study: Many workers' retirement savings will run out too soon, USA Today, July 2010 [http://www.usatoday.com/money/perfi/retirement/2010-07-14-ebiretire14\\_ST\\_N.htm](http://www.usatoday.com/money/perfi/retirement/2010-07-14-ebiretire14_ST_N.htm)

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Lessons to Learn from Plan Design

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graph TD; C(( )) --> WL[WORK LONGER]; C --> SL[SPEND LESS]; C --> SM[SAVE MORE]; C --> EUA[EFFICIENT USE OF ASSETS];
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**WORK LONGER**

- SS retirement age 71
- SS early retirement factors
- “Partial” retirement
- 70 ½ waiver for workers

**SPEND LESS**

- Redefine retirement lifestyle
- Healthcare/LTC reform?
- Move
- Cutting SS benefits

**SAVE MORE**

- SS contribution rate
- 401(K) auto enroll
- Tax preference (limits, %)?

**EFFICIENT USE OF ASSETS**

- Annuitization
- Motivate home downsizing
- Privatization of SS?

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Appendix

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MetLife	Retirement System Responses
<h2>Increasing Contributions and Retirement Ages</h2>	
<p><b><u>Australia</u></b></p> <ul style="list-style-type: none"> <li>• Retirement System Structure           <ul style="list-style-type: none"> <li>➢ Universal old age pension (PAYG)</li> <li>➢ Mandatory Superannuation scheme (mainly DC plans)</li> <li>➢ Additional voluntary contributions to Superannuation scheme</li> </ul> </li> <li>• Adequacy concerns of the Superannuation scheme</li> <li>• Increasing mandatory minimum contribution from 9% to 12%<sup>1</sup></li> </ul> <p><small>1. Your Super Contributions Will Increase to 12% - But Who Will Pay For It? – SavingsGuide.Com.Au, March 14, 2011 <a href="http://www.savingsguide.com.au/your-super-contributions-will-increase-to-12-but-who-will-pay-for-it/">http://www.savingsguide.com.au/your-super-contributions-will-increase-to-12-but-who-will-pay-for-it/</a></small></p>	
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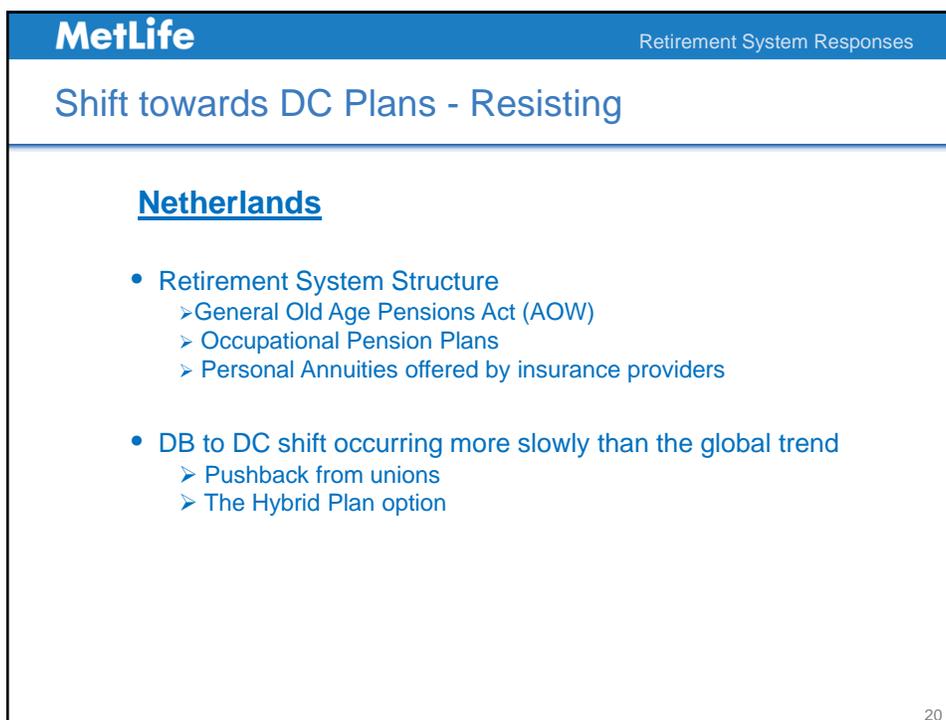
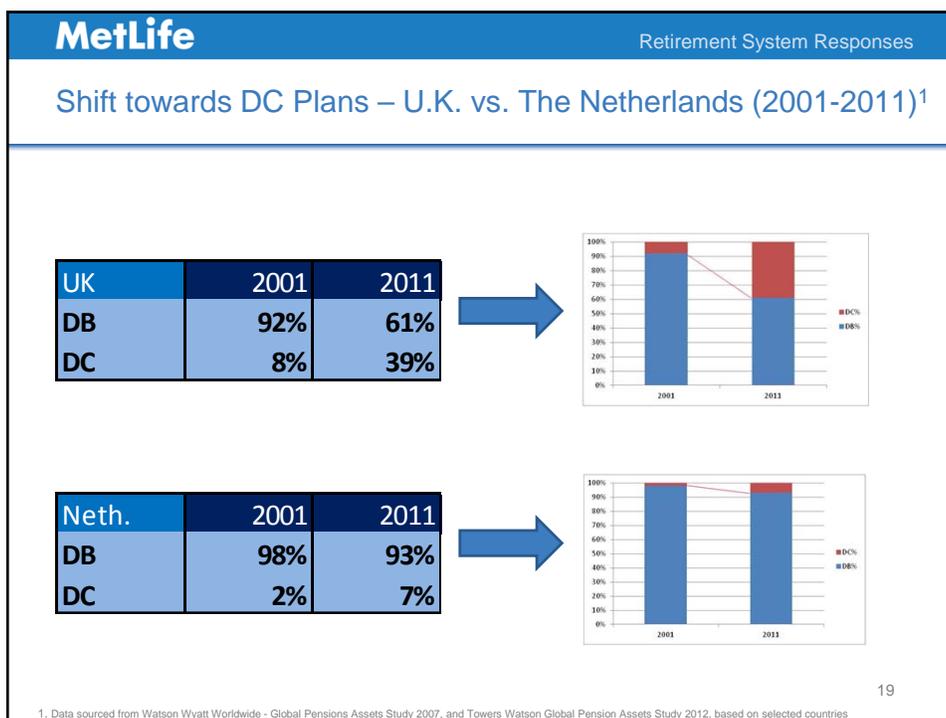
MetLife	Retirement System Responses
<h2>Increasing Contributions and Retirement Ages</h2>	
<p><b><u>France</u></b></p> <ul style="list-style-type: none"> <li>• Retirement System Structure           <ul style="list-style-type: none"> <li>➢ Compulsory general Social Security system (PAYG)</li> <li>➢ Compulsory supplementary system (PAYG)</li> <li>➢ Voluntary corporate plans</li> </ul> </li> <li>• Social Security budget deficit (EUR 29.8 B in 2011)<sup>1</sup></li> <li>• Will boost retirement age from 60 to 62 by 2018<sup>1</sup></li> </ul> <p><small>1. Raising the Retirement Age – 5 Countries Testing the Water – Investopedia, July 2, 2010 <a href="http://www.investopedia.com/financial-edge/0710/Raising-The-Retirement-Age-5-Countries-Testing-The-Waters.aspx">http://www.investopedia.com/financial-edge/0710/Raising-The-Retirement-Age-5-Countries-Testing-The-Waters.aspx</a></small></p>	
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<b>MetLife</b>	Retirement System Responses
<h2>Increasing Contributions and Retirement Ages</h2>	
<p><b><u>Germany</u></b></p> <ul style="list-style-type: none"> <li>• Retirement System Structure           <ul style="list-style-type: none"> <li>➢ Compulsory general Social Security system (PAYG)</li> <li>➢ Occupational pensions</li> <li>➢ Individual retirement investments</li> </ul> </li>   <li>• Increasing contribution rates – current SS rate of 19.9% to be increased incrementally to 22% by 2030<sup>1</sup></li>   <li>• Increasing retirement age for standard pension to be increased from 65 to 67 by 2029<sup>1</sup></li>   <li>• Including other changes, the above measures should adequately finance the SS program through 2030<sup>1</sup></li> </ul>	
<small>1 Watson Wyatt – The German Pension System in Brief - <a href="http://www.watsonwyatt.com/us/pubs/insider/showarticle.asp?ArticleID=20358">http://www.watsonwyatt.com/us/pubs/insider/showarticle.asp?ArticleID=20358</a></small>	15

<b>MetLife</b>	Retirement System Responses
<h2>Promoting Annuitization of Benefits</h2>	
<p><b><u>Chile</u></b></p> <ul style="list-style-type: none"> <li>• Retirement System Structure           <ul style="list-style-type: none"> <li>➢ Solidarity Pillar</li> <li>➢ Mandatory Contributory Pillar (AFP)</li> <li>➢ Voluntary Pillar</li> </ul> </li>   <li>• Pension reform created in 1981 created mandatory second pillar (AFP), making Chile a pioneer in the 3 pillar model<sup>1</sup></li>   <li>• One component of AFP – promotes annuitization of benefits by placing restrictions on taking lump sum withdrawals           <ul style="list-style-type: none"> <li>➢ ~60% of retirees take an annuity</li> <li>➢ ~40% of retirees take a phased withdrawal<sup>1</sup></li> </ul> </li> </ul>	
<small>1. Annuities and other Retirement Products – Designing the Payout Phase – Rocha,Vitas,Rudolph; The World Bank, Copyright 2011</small>	16

<b>MetLife</b>	Retirement System Responses
<h2>Promoting Annuitization of Benefits</h2>	
<p style="text-align: center;"><b><u>United Kingdom</u></b></p> <ul style="list-style-type: none"> <li>• Retirement System Structure           <ul style="list-style-type: none"> <li>➢ Basic State Pensions</li> <li>➢ Additional State Pensions, including State Second Pension (S2P)</li> <li>➢ Occupational Plans</li> <li>➢ Voluntary Plans (individual or group)</li> </ul> </li>   <li>• 2011 – legislation introduced related to annuitization of retirement funds, moving from compulsory annuitization for all to minimum income approach<sup>1</sup></li> </ul>	
<small><sup>1</sup>The Guardian – Compulsory Annuities Scrapped for Pension Savers (Dec. 2010) <a href="http://www.guardian.co.uk/money/2010/dec/09/compulsory-annuities-scrapped">http://www.guardian.co.uk/money/2010/dec/09/compulsory-annuities-scrapped</a></small>	
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<b>MetLife</b>	Retirement System Responses
<h2>Promoting Annuitization of Benefits</h2>	
<p style="text-align: center;"><b><u>Australia</u></b></p> <ul style="list-style-type: none"> <li>• No restriction on payout type from superannuation funds</li>   <li>• Culture of “Lump-Sum Mentality”<sup>1</sup></li>   <li>• Percentage of benefits paid out as lump sums slowly declining<sup>1</sup> <ul style="list-style-type: none"> <li>➢ 1990s – Lump sums accounted for 80% of all benefit payments</li> <li>➢ 2009 – Lump sum portion of payments declined to 56.4%</li> </ul> </li> </ul>	
<small><sup>1</sup>. Annuities and other Retirement Products – Designing the Payout Phase – Rocha,Vitas,Rudolph; The World Bank, Copyright 2011</small>	
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MetLife	Retirement System Responses
<h2>Shift towards DC Plans - Embracing</h2>	
<h3><u>United Kingdom</u></h3>	
<ul style="list-style-type: none"> <li>• Occupational plans shifting to DC               <ul style="list-style-type: none"> <li>➢ Freezing DB Plans</li> <li>➢ Growth of Contract Based DC Plans (GPP or GSIPP)</li> </ul> </li> <li>• Auto-Enrollment and the National Employment Savings Trust (NEST)               <ul style="list-style-type: none"> <li>➢ Default option for employers with no pension arrangement</li> <li>➢ DC savings mechanism for employees with lower earnings to have access to a retirement plan</li> <li>➢ Implementation beginning in 2012</li> </ul> </li> </ul>	
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MetLife	Retirement System Responses
<h2>Renationalization</h2>	
<h3><u>Poland</u></h3>	
<ul style="list-style-type: none"> <li>• Retirement System Structure               <ul style="list-style-type: none"> <li>➢ Social Security (ZUS)</li> <li>➢ Mandatory Occupational Pension Plans (PTE)</li> <li>➢ Voluntary Individual and Corporate Plans</li> </ul> </li> <li>• Success of the mandatory occupational plans</li> <li>• In 2011 Rising government deficits spurred governing party to redirect portion of funds from PTE back to Social Security<sup>1</sup></li> </ul>	
<small>1. Polish Pension Reforms - Talking Heads , The Economist, March 22, 2011;  <a href="http://www.economist.com/blogs/easternapproaches/2011/03/polish_pension_reform">http://www.economist.com/blogs/easternapproaches/2011/03/polish_pension_reform</a> </small>	
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<b>MetLife</b>	Retirement System Responses
<h2>Renationalization</h2>	
<p><b><u>Hungary</u></b></p> <ul style="list-style-type: none"> <li>• Retirement System Structure           <ul style="list-style-type: none"> <li>➢ Social Security</li> <li>➢ Voluntary Individual and Corporate Plans</li> </ul> </li> <li>• 1997/1998 - Initial Reform<sup>1</sup> <ul style="list-style-type: none"> <li>➢ First country in CEE region to implement major pension reform</li> <li>➢ Included mandatory DC pillar</li> </ul> </li> <li>• 2010 – Government decides to renationalize accumulated funds in second pillar<sup>1</sup></li> </ul>	
<small>1. Pension System Reforms – Lessons from Central/Eastern Europe, Vladimir Dlouhy – presentation for The Russian Presidential Academy of National Economy and Public Administration; Moscow, May 30, 2011</small>	
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