

Future Patterns of Work and Retirement: The Evolving Third Age

by Anna M. Rappaport

EXECUTIVE SUMMARY

Citizens in all developed countries are living longer, and life-spans are continuing to increase. Many countries will have relatively more older persons than at any time in the past, and communities, workplaces, and families will be very different. This trend will continue, and over the next 25 years the change will be dramatic. This paper looks at how people retire, how that may change, and how retirement plans are likely to fit in. It discusses efforts to move to new models and includes recommendations for the future. It is primarily based on U.S. data and the U.S. environment, but many of the issues also apply in other countries.

ABOUT THE AUTHOR

Anna Rappaport is an actuary, consultant, author, futurist, and speaker. She is a nationally and internationally recognized expert on the impact of change on retirement systems and workforce issues. After 28 years with Mercer Human Resource consulting, she retired from the firm at the end of 2004 and formed Anna Rappaport Consulting in 2005. She was appointed senior fellow on pensions and retirement by The Conference Board in 2007.

She previously served as president of the Society of Actuaries. She spends a lot of time chairing the Society of Actuaries Committee on Post-Retirement Needs and Risks and serves on the boards of the Women's Institute for a Secure Retirement (WISER) and the Pension Research Council. She is passionate about creating a better future for older Americans and improving the retirement system in America, and is particularly concerned about the many women who do not fare well at older ages. She is a member of the Chicago Network, an organization of the most senior women in Chicago.

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Citizens in all developed countries are living longer, and life spans are continuing to increase. Many countries will have relatively more older persons than at any time in the past, and communities, workplaces, and families will be very different. This trend will continue, and over the next 25 years the change will be dramatic. The United States had 37.3 million persons over age 65 in 2006, and that is projected to grow to 86.7 million in 2050, or from 12.4% of the population to 20.6%. The percentage of the population over age 85 is projected to more than double, from 1.8% in 2006 to 5.0% in 2050.¹ The benefit structure, data, and legal issues in this paper are drawn from U.S. experience. There are parallel issues in developed countries, including population aging; multi-tiered retirement financing systems that use a combination of social security and private benefits, with a range of benefit structures; and extensive policy influence on retirement security. The issues combine in different ways, but there is substantial overlap in the issues.

Key questions as we think about the new demographics and emerging society include:

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- What will retirement mean, and how will it be defined?
- Under what circumstances will public programs offer support to all or virtually all elderly persons in a country? How will “elderly” be defined?
- What will be the expectations about work at higher ages? What obstacles will there be to working to later ages, and how capable will people be of working longer?
- What kind of benefits will employers offer for retirement, and how well will they work? Are programs that provide for earning benefits over 30–40 years of work and collecting them over the next 30 years reasonable?
- How do we encourage individuals to save for their own retirement? What can be expected on a voluntary basis?
- How will families be involved in supporting their senior members? What alternatives will there be for people without family members to offer help?
- What must we do to deal with future instability? How much stability can we count on?
- How similar are the issues between countries?
- What can developed and developing countries learn from U.S. experience?

TRADITIONAL RETIREMENT SYSTEMS

In developing countries and preindustrial society, there were no formal retirement systems. Many people had large families, and the retirement system was that people worked as long as they could; when they could not work any longer, other family members or people in the local community cared for them. The unit over which risk was pooled was the family (including the extended family and local community). People lived near their families.

In developed industrial countries, formal systems for retirement developed based on governmental social security systems (Tier 1), added private benefits (Tier 2), and personal savings (Tier 3). Retired

persons had a means of support based on pensions and would live independently away from their families. Tier 2 benefits are based on two types of plans: defined benefit (DB) and defined contribution (DC). DB plans usually pay a benefit of an income guaranteed for the life of the retiree and spouse, with the income most often based on a formula linked to pay and length of service. DC plans are more like a savings account and provide a benefit based on the amount saved plus investment earnings. Often DC benefits are payable as a lump sum, leaving the individual totally responsible for managing them in retirement.

The level of benefits varies by country, as does the role of the public and private sector. In many countries, there has been a shift away from DB plans to more DC plans. As a result of retirement programs in industrial countries, during the past century, most citizens expected to retire at ages 60 to 65. The expected life-cycle pattern was that work would be followed by leisure and retirement. In the last decade, it has been recognized that, without change in these norms, periods of retirement for some would be as long as periods of work, financial security systems were becoming extraordinarily expensive, and meaningful activity was important throughout life. Increasingly, people are moving from full-time work to full-time retirement in steps, with a transition period that can include work on a reduced schedule, and interspersed periods of work and leisure. This period is often called the third age.

The economic conditions of 2008 make the landscape far more challenging. As of December 2, 2008, U.S. retirement accounts had lost 32% of their value.² Many countries are confronted with aging populations and difficult economic conditions. As people age, fertility rates have dropped in many countries, and in some are as low as 1.2 or 1.3.³ The balance between workers and retirees is shifting, making many systems unaffordable and leaving countries with severe potential labor shortages.

PERSPECTIVE ON RETIREMENT BENEFITS

Many experts believe that a new generation of retirement systems is coming. Retirement systems at the start of 2009 can be viewed as representing a mix of success and failure. We will look first at successes and then at failures.

Key successes include the following:

1. For the last two decades, many people in various countries (far more than 50 or 100 years ago) could afford to retire and live a good life in retirement. In the United States, 35.2% of the 65-and-over population was in poverty in 1959; 15.7% in 1980; and 9.4% in 2006.⁴ For the 85-and-over population, the percentage in poverty dropped from 21.2% in 1982 to 11.4% in 2006. However, with the present economic crisis, it is unclear how much the number who can retire reasonably will be reduced and how those already retired will be affected.
2. People are living longer in many countries, and it is not uncommon for people to be retired for 25 years or more. Life expectancy at age 65 for men in the United States increased from 11.5 years in 1900 to 12.7 years in 1950 and to 17.1 years in 2004. For women the corresponding years are 12.2, 15.0, and 20.0.⁵
3. People most likely to have good retirement resources are those living in countries with good social benefits and those working for larger companies and governmental bodies over their career.
4. Support of retirement savings by employers and sponsorship of pensions and retirement savings plans has greatly increased the number of people with retirement savings and the amount they have available.
5. Health care today in the United States is better than ever before, but health-care costs are a challenge in many countries. In the United States, the number of uninsured is growing. This reflects a mixed success.

The United Nations Department of Economic and Social Affairs says about the global situation:

- Population aging is unprecedented, without parallel in human history—and the twenty-first century will witness even more rapid ageing than did the century just past.
- Population aging is pervasive, a global phenomenon affecting every man, woman and child—but countries are at very different stages of the process, and the pace of change differs greatly. Countries that started the process later will have less time to adjust.
- Population aging is enduring; we will not return to the young populations that our ancestors knew.
- Population aging has profound implications for many facets of human life.

Key failures include the following:

1. Poverty rates are still too high in many countries. Widows and divorced women are far more likely to be living in poverty than married couples in many countries.
2. Portions of populations are left out of retirement plans. This may be the result of work history and/or personal decisions.
3. Existing programs are growing rapidly in cost as a result of population aging and difficult economic times and are unsustainable in many cases.
4. Many traditional DB pension plans have been frozen or terminated.⁶ Generally, employees get benefits earned prior to the termination or freeze date, but this is not always the case. Some, but not all, of the terminated and frozen plans are replaced with new benefits, often at a lower level.
5. Current retirement ages need to increase in many countries, but politically this is a very difficult task. This is under way in some

countries, but more increases are probably needed. Opponents of increase point to the needs of people in hazardous and strenuous jobs.

6. Many people in the world do not have access to good health care, and affordability of the system is an issue in many places.⁷

CHOICE AND INDIVIDUAL RESPONSIBILITY

There has been a vast increase in individual responsibility for retirement, with a major shift in pension structure from DB plans to DC plans. Some social security systems have made similar changes. It is difficult to describe this as either a success or failure, but lessons have been learned. DC plans generally offer far more choice than DB plans. Choices include whether to enroll, how much to save, and how to invest funds. Both types of plans can offer choice at retirement or plan exit. While it was once expected that choice would be a big plus for DC plans, experience with choice has demonstrated that many people choose default options—they do what happens without having to take positive action. And further, the average citizen is not knowledgeable about investment choices and can be nudged quite easily. The result of this is that DC plans are now structured to work better without individual action, and common defaults include automatic enrollment, increases in savings, and balanced investment options. Under this system, employees must opt-out, otherwise they will be in. Offering a wide range of choice has not worked well.

THE ENVIRONMENTAL AND SOCIETAL CONTEXT

Across countries, common factors define the landscape for work and retirement in the third age, and help us think about the future and the potential for discontinuity and major changes. The tables below describe these factors and the type of change they are subject to and provide examples of change.

GOALS FOR THE FUTURE

The author is focused on the following goals as retirement-plan structures are considered. Societal systems should provide:

- Financial systems, public and private, to support retirement that works without too much individual decision making. Systems that support better work options, later retirement, and retirement security for as many citizens as possible. Systems designed to recognize that many individuals will not do good long-term planning.

Table 1: Political Structure

Factor and Its Importance	Description	Type of Changes	Examples
<p>A change in structure could mean radical change in and even the end of Tier 1 benefits if a country ceases to exist, and big change in how Tier 2 and 3 benefits are governed.</p>	<p>Government defines and provides social security benefits and has a big influence over health benefits.</p> <p>Government regulates employer retirement plans and tax preferences for individual retirement savings.</p> <p>But, the structure of a country or its government may change, or the country may cease to exist in its current form.</p>	<p>Change in philosophy of those in power.</p> <p>Change can also occur when countries band together. The EU will be a source of policy for that region in the future.</p> <p>Discontinuity occurs when structure of countries change or they break up.</p> <p>As a result of change in political structure, people may spend part of their working lifetime in one country and part in another, or they spend their working lifetime in one country and their retired life in another.</p>	<p>Shift from liberal to conservative government or vice-versa.</p> <p>Looking ahead, changes are hard to predict and many are possible.</p> <p>Examples of last 50 years: Breakup of the Soviet Union and of Yugoslavia.</p> <p>Formation of the EU.</p> <p>Possible future split of Canada if Québec withdraws. There have been several referenda on this.</p>

Table 2: Economics

Factor and Its Importance	Description	Type of Changes	Examples
Both DB and DC pensions as well as personal savings depend on having a currency and investment markets with reasonable stability and predictability over time.	The economic structure includes rate of growth, inflation, investment returns, etc. Business cycle sets normal change.	Much greater change has occurred in some cases. Some cycles seem to be very long.	In early 2009, it is very difficult to predict whether future will be similar to recent decades. Equity market downturn, mortgage foreclosures, and real-estate downturn in 2008. Many countries have experienced major inflation—e.g., Germany in 1920s.

- Better work options for third-age Americans as they move toward full exit from the labor force.
- Later retirement and full exit from the labor force that gradually adjusts to changing life spans and helps make the idea of retirement more affordable for more people.
- More individuals thinking about the long term and doing better personal planning for retirement, with more analysis as part of that planning.

ONGOING EFFORTS: THE FUTURE OF RETIREMENT SYSTEMS AND RETIREMENT

Different groups are focused on the next generation of retirement systems and are involved in efforts to create a better future for retirement. The Society of Actuaries is sponsoring a major effort to look at retirement systems (Retirement 20/20) in order to define and search out a better system in the future. The ERISA Industry Committee (ERIC), a group of major employers in the United States, has

Table 3: Demographics

Factor and Its Importance	Description	Type of Changes	Examples
<p>Demographics drive who is working and who is eligible for benefits.</p> <p>Demographics and related matters include the age structure of the population, life spans, fertility rates, immigration rates, etc.</p> <p>As a result of immigration, people may not spend their entire working life in one jurisdiction, and they may not spend their retired life in the same jurisdiction where they worked.</p>	<p>Traditional systems use retirement ages defined as “fixed numbers” even though life spans are rising.</p> <p>Traditional systems do not make formal provision for gradual retirement.</p> <p>Government policy has a major role in defining retirement ages and it has been extremely difficult to make changes to increase these ages.</p>	<p>Demographic change occurs gradually and is generally predictable several years before it happens.</p> <p>Exceptions would be a major epidemic or war wiping out many people, or big sudden change in the immigration policy.</p>	<p>Retirement ages need to increase in the future—far more than accepted to date.</p> <p>Retirement ages need to be redefined as number changing with life spans.</p> <p>Populations in Japan, Hong Kong, Europe, and North America are all aging, and life spans are increasing.</p> <p>Fertility rates are very low in Japan, Germany, Italy, and Spain.</p>

put forth a New Benefits Platform. Various other groups have put forth proposals to offer savings programs to Americans not covered by employer plans. These proposals vary, but several call for mandating employers to at least offer an IRA, or call for automatic enrollment in an IRA with an opt-out. Only the Society of Actuaries initiative and the ERIC proposals are discussed further in this paper.

This paper describes four scenarios for the future of retirement. These scenarios will interact with the next generation of retirement programs, so that both patterns of retirement and the benefits provided interact.

The Society of Actuaries Retirement 20/20 initiative focuses on some important concepts for the future of retirement systems. There

Table 4: Family Role

Factor and Its Importance	Description	Type of Changes	Examples
<p>Family includes the role of the family in caring for older family members and in providing support for them.</p> <p>This can range from virtually no responsibility to nearly total responsibility.</p>	<p>Family role is intertwined with rising life spans, a mobile population, and divorce. People have multiple families over their lives and often do not live near family members.</p> <p>The family unit during the time benefits are earned may be different from the family unit when they are paid.</p> <p>Traditionally, in Asia, the family has played a major role in the care and support of older family members, although this is gradually changing in many countries.</p>	<p>Change is generally gradual and reflects changes in custom and values as well as demographics.</p> <p>Divorce is also a factor in driving such change.</p> <p>Declining fertility rates mean that fewer children are available to care for aging parents.</p> <p>Multiple marriages over time are common in some countries.</p> <p>In some countries, significant parts of the elderly population are alone and elderly women are mostly likely to be alone. Of U.S. women over age 85, only 15.4% were married in 2007 and 48.8% of women over age 75 were living alone.⁸</p>	<p>Shrinking institutional systems point to the need for more family involvement, but for many it may not be a reality.</p> <p>New forms of support will be key:</p> <p>In the U.S., many of the very old are divorced women and widows, often with no family members to provide care.</p> <p>For Asians who would formerly have relied on the family, but where this will not be a future reality.</p>

are four major stakeholders whose needs and interests interact: society as a whole, individuals, markets, and employers. The Retirement 20/20 initiative brought together a diverse group of experts to think about the future. In 2006, after they discussed the needs of the stakeholders, they focused on six key themes of importance:

1. Systems should align stakeholders' roles with their skills;

2. Systems should be designed to self-adjust;
3. Systems should consider new norms for work and retirement and the role of the normative retirement age;
4. Systems should be better aligned with markets;
5. Systems should clarify the role of the employer; and
6. Retirement systems will not succeed without improvements in the health and long-term care systems.⁹

In 2007, this effort focused on the roles of society, markets, and employers. Society's role includes helping individuals make the right decisions, setting guidelines about what should happen, and protecting consumers. The experts felt that society should encourage lifetime income, help individuals build wealth for retirement, and provide oversight and regulation. The experts focused on markets supporting the retirement system by working with groups who could negotiate with the markets, providing incentives for agents that aligned with the interests of those they were serving, offering products with standardization, and innovating. There were various views about the role of the employer, and consensus about several roles. These roles included being a facilitator of individual savings, serving as an unbiased educator and trusted advisor, and participating in a range of elective roles included guarantor of benefits, purchasing agent, and distributor of income. It is expected that this effort will provide information about a range of options for future models and systems.

ERIC has proposed a model where employers could retain their traditional role, but could also choose to delegate management of benefits to regional purchasing cooperatives. Under their proposals, individuals would be mandated to save beyond Social Security, and that would enhance retirement security. A benefit design is included in this model as well. This model offers individuals without benefits access to benefits comparable to what individuals with employer-pro-

vided benefits get. The proposal combines a market-based structure with individual choice and enhanced group risk sharing, ensuring the voluntary continuation and expansion of the employers' role. It leaves employers to do what they do best and administration to those that do it best. The following is a brief description of the New Benefits Platform as it was described in testimony to Congress:¹⁰

1. Benefits Administrators would manage benefit plans, competing for business and customers on the basis of product quality, service, and cost.
2. Retirement, short-terms savings plans and medical plans would be included. Other benefits such as life insurance and disability could be added at a later date. We believe that integrating retirement, savings, and health coverage is critical.
3. A uniform national regulatory structure would be established to ensure that there is effective and fair competition among administrators and that there is total transparency for consumers. The structure could be developed by the Federal government or a federally enabled non-governmental entity.
4. Employers would have the option of continuing in the current system, purchasing benefits for their employees from a regional Benefit Administrator, or providing "benefit funding" to their employees who could purchase benefits from the Administrator of their choice.
5. Individuals would be guaranteed the opportunity to purchase benefits directly from Benefit Administrators on the same basis as those accessing benefits through employers.
6. Benefits would be portable among Benefit Administrators.

7. Employers and individuals would share in funding; the tax treatment of qualified lifetime security benefits would be uniform for all Americans.
8. Benefit Administrators would provide financial planning services through salaried financial planners to optimize the potential for retirement security.
9. All individuals would be required to establish a retirement savings account apart from Social Security. We would support a subsidy for low-income savers.

The efforts described above are two of the ongoing efforts to build a new generation of retirement plans. One is from the actuarial profession, and the other from a group of large business organizations. Both recognize the importance of risk pooling and the need for an organized retirement system. Some observers of the current situation indicate that we could go back to where we were prior to industrialization. The author believes that this is impossible for two reasons—first, we are living much longer than at that time, and, second, the family and community structures that supported those who needed help no longer exist. Many people live away from their families and may not have much family at all. However, as we live longer, adjustments are needed in how and when we retire and how we organize for retirement.

SCENARIOS FOR THE FUTURE OF RETIREMENT

As we think about the shifting environment, we can define several scenarios for the future of retirement within the United States. This section explores four scenarios:

- Scenario 1: Continuation of present trends—retirement is generally accepted part of the life cycle.
- Scenario 2: Increase in retirement ages.
- Scenario 3: End of retirement.

- Scenario 4: Move to new patterns of retirement—much later total retirement, but introduction of a third age, where people work at a reduced level with more choices before total retirement.

These scenarios reflect the author's opinions operating in the context of increasing life spans and are built on a combination of intuition and interpretation of research findings. While these scenarios have been built to fit the situation in the United States, issues surrounding retirement ages and the third age are applicable in many settings. The same types of scenarios can be considered in other industrialized countries linking to their demographics, laws, retirement systems, and family structures.

Scenario 1: Continuation of Present Trends. Retirement Is Generally an Accepted Part of the Life Cycle

Under this scenario, many people will have access to regular retirement income, and the expectation is that between ages 60 and 67 most people will leave the full-time paid labor force, and often they will leave all employment.

There is a substantial difference in individual circumstances with regard to access to pension benefits. People with long-term employment in major firms and/or government employment are likely to have good resources for retirement, including their Social Security, and to do well in retirement. The situation is much more mixed with regard to people who had many different jobs or who worked primarily for smaller firms. People without substantial attachment to the paid labor force are unlikely to have retirement benefits, although they could have family assets.

People seeking work during retirement have different experiences with regard to their ability to find work. Professionals are most likely to find work based on contacts from former employment and professional associations, and are quite likely to be able to find contract work. Retailers often use part-time and/or older workers, and firms such as Home Depot are known for their hiring of older work-

ers. Many older persons seeking employment have difficulty finding work.

Scenario 2: Increase in Retirement Ages

Under this scenario, there would be a significant increase in retirement ages. Retirement may be defined as it is now, or it might be defined to include much more phased retirement and different patterns of work and activity. As in Scenario 1, there are substantial differences in individual circumstances with regard to retirement resources and employability. This scenario will create problems for people in very strenuous jobs who wear out early and are unable to do jobs later.

Scenario 3: End of Retirement

Under this scenario, many people will need to continue working, and there will be no (or very inadequate) formal systems for retirement income. When people become disabled, they will usually stop working. Hopefully, disability benefit plans will be extended to higher ages. For some people, families will be available to help them out. While this scenario seems politically impossible, some commentators talk about people working much longer, and baby boomers not retiring.

People with adequate personal assets will have the choice to stop working, but those without will not, or they may find a bleak existence. People with larger families are more likely to be able to live with family members and to have help from them. Widows are particularly likely to have problems in old age.

This scenario could well lead to an increase in fertility rates in the long run, as adult members of society would recognize the importance of children in helping to care for them as they get older. This scenario will likely lead to conflict between generations, as members of society fight over allocation of governmental resources, and will

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Table 5: Comparison of Scenarios—The Work and Retirement Experience

	1 - Continue present trends	2 - Increase retirement ages	3 - End of retirement	4 - Move to new retirement patterns
Labor force participation at ages over 70	Minimal	Somewhat greater than at present	Very substantial	Somewhat greater than at present
How people leave the labor force	Retirement, death, or disability	Retirement, death, or disability	Death or disability	Retirement, death, or disability
Need for development of alternative work options	Moderate	Much greater than at present	Much greater than at present—people will prefer reduced work after some point	Much greater than at present, depends on how scenario is developed
Relationship to disability programs	As at present	Would probably need to extend benefits to higher age	Disability programs would be much more important	Would need to adjust disability benefits
Likely work alternatives	Part-time, part-year, project work, telecommuting, some special project work	Similar to present situation	Part time, part year, project work, telecommuting, some special project work; likely to see great demand for flexible job options as people try to work at much older ages	Similar to present situation

Table 6: Comparison of Scenarios—Demographics and Personal Choice

	1 - Continue present trends	2 - Increase retirement ages	3 - End of retirement	4 - Move to new retirement patterns
Impact of personal choices on old age economic success	Moderate and increasing	Moderate and increasing	Total, since there are only individual efforts	Greater than at present
Impact on retirement ages	Small increases	Major increases	Retirement no longer common pattern	Retirement is more multi-step, with complete retirement at later ages
Role of family in retirement	Families are an economic unit, pool risk and help each other Unmarried people are more likely to need to buy help in the marketplace	Similar to present situation	Greatly increased, families will need to step in when people are no longer able to work as retirement income systems will not exist This scenario could encourage increases in fertility as families recognize the importance of children to help care for parents	Similar to present situation
Special issues for different groups	Unmarried and childless people need more money as family help is much less likely to be available	Similar to present situation	Groups in physically demanding jobs and those without families are very vulnerable in this scenario	Similar to present situation

(continued on page 98)

Table 6, continued

	1 - Continue present trends	2 - Increase retirement ages	3 - End of retirement	4 - Move to new retirement patterns
Link of scenario to longer life spans	Current system does not adjust to life span increases	Can track changes in retirement ages to increases in life spans	Individuals are totally responsible for themselves, regardless of how long they live	Can index retirement ages and link to increases in life spans, would need to link to new definition of retirement

probably lead to more demands on government and a focus on increased programs for the poor.

Scenario 4: New Patterns of Retirement

This scenario provides for a move to much later total retirement, with general acceptance of a third age. The third age is a period of transition from full-time work to total retirement and includes a reduced level of work and lifestyle choices. This scenario builds on Scenario 2 and takes it much further. As in Scenarios 1 and 2, there are substantial differences in individual circumstances with regard to retirement resources and employability. This scenario redefines patterns of work in a later period of work stage and introduces more work options and phased retirement. It introduces the concept of the third age and anticipates that new careers and different activity patterns will be used widely. This scenario will work much better for some jobs than for others.

The author’s preference is for Scenario 4, “Move to new patterns of retirement,” as her choice for the future. This would encompass eligibility for full benefits under public systems (such as Social Security) indexed to increases in longevity starting from age 67. Employ-

**Table 7: Comparison of Scenarios—Economics:
Earnings and Retirement Income**

	1 - Continue present trends	2 - Increase retirement ages	3 - End of retirement	4 - Move to new retirement patterns
Responsibility for old age and retirement security	Shared with government and employer playing important roles	Shared but with diminished costs due to less retirement	Totally with the individual	Shared but with diminished costs due to less retirement
Economic role of retirement systems	Enable people to leave paid labor force, often when they choose to, and often when they could continue to work	Same idea but at a later age	Would not apply	Depends on system
Role of benefit systems in work and retirement choices	For people with good benefits, major role Health care availability is key; employer health care for retirees enables retirement and the lack of it is a barrier to retirement	Similar to present situation	Not applicable	Similar to present situation
Fit of defined benefit plans to scenario	Good fit, but adjustment to more flexible retirement would be needed	Retirement ages would need to increase and support of flexible retirement would be very helpful	Not applicable	Plan could continue to work well, but would need to be designed to fit new structure
Impact of defined contribution plans	Provides assets for retirement, but people likely to retire at higher ages with only DC plans	Similar to present situation	Not applicable	Similar to present situation

ers are fully allowed to pay benefits under DB employer systems while people continue to work after age 62, with that age indexed in parallel with the full benefit retirement age under public systems. For DC, there is no set retirement age, but ages are set below which there are tax penalties if funds are withdrawn and above which there are tax penalties if no funds are withdrawn. Currently the ages of interest in the United States are 59.5 and 70.5. These ages could be adjusted upward, and there could be more limits on the time when retirement funds could be used.

Scenario 3, “The End of Retirement,” is viewed as very unfortunate, and it is the author’s opinion that this would lead to many more poor women in old age and an undesirable greater dispersion in wealth. There would be major transition problems if society moved to Scenario 3, but these problems are beyond the scope of this paper.

RECOMMENDATIONS FOR THE FUTURE

It is the author’s view that an organized retirement system is very important to society. The best systems are based on a partnership of public and private benefits, or mandated and voluntary private benefits. Diversification in the “total retirement and wealth portfolio” is necessary to diversify risk. In diversifying risk, it is important to go beyond traditional investment risk. A floor of protection should be offered to everyone, through either a public benefit or a mandated private benefit. Encouraging savings is important, but it is also important to be realistic about the limits on what will be saved. Combined DB and DC approaches balance the needs of older and younger workers, and can be very efficient. It is very possible that new designs different from traditional DB or DC will emerge. Choice has a role to play, but it makes sense to limit the amount of choice that is offered.

For a good retirement future, it is important that a country:

- Accept and include in public policy the importance of an organized retirement system and its value to society. Without such a system, there would be many more poor people in old age and a

great deal more stress on society. Disabled individuals would be severely disadvantaged unless there was good coverage for them.

- Build integrated retirement policy, including cash, medical, and long-term-care elements. The benefits are interrelated and should be dealt with in a unified way.
- Understand that innovation is important—support it, but don't get rid of the basics. It is important to accommodate new ideas and support emerging designs, but at the same time to remember system goals and support what has worked well previously.
- Remember the widows and divorced women. Women alone are most likely to be poor and need protection. One person needs about 75% of what a couple needs! Families can be important in caring for family members, but those who spend their lives caregiving also need retirement benefits. It also needs to be remembered that not everyone has a family when he or she retires.
- Support DB plans or other plans that offer substantial risk pooling. DB plans remain the most efficient way to provide regular income to longer-service employees. They are important to retirees today, and in spite of the rhetoric to the contrary, turnover patterns have not changed that much over time.
- Maintain Social Security as a system that pays out regular retirement income. For many people, this is the only retirement income guaranteed for life, and this will be true for a greater percentage of the population in the future.
- Facilitate work options and work later in life. Under the emerging patterns of retirement and all of the scenarios, this is very important.
- Facilitate phased retirement. Part of later retirement and part of the idea of working in retirement is to have systems that support phased retirement, allowing people to use retirement resources for part of their support as they continue to work on a partial basis.
- Encourage full retirement at later ages. This is called for under some of the scenarios, and is important as we adjust to longer life

spans. At the same time, this requires a balanced approach and a focus on how to handle disability and demanding jobs. Adjust to increasing life spans on a gradual basis.

- Facilitate auto-pilot DC plans. Auto-pilot DC plans are those that work well without employee decisions. They would include auto-enrollment, good methods of handling investment mix, and, ideally, good distribution options.
- Support and encourage regular income with survivor benefits as a distribution option in DC plans. As DC plans have become important, regular income remains very important.
- Make life simpler for plan sponsors. Many of the problems of the last few years are rooted in complexity and uncertainty.
- Try to improve financial literacy, and remember the diversity of the people who need the messages. Offer education to increase personal savings, but recognize the realities. There is ample evidence that many Americans are not positioned to make good retirement decisions. No amount of education can completely solve this, but let's do our best.
- Provide health care access for all. If private individual insurance markets are central to this, use a method of risk adjustment so that individual insurance markets can function. If there are no such private markets, make sure public programs are available to cover people who do not have employer coverage.

NOTES

1. Older Americans, 2008, Tables 1a and 1b, Federal Interagency Forum on Age Related Statistics.
2. Mauricio Soto, *How Is the Financial Crisis Affecting Retirement Savings?*, Urban Institute, 2008.
3. Countries with particularly low fertility rates include Japan, Hong Kong, Italy, Germany and Spain. U.S. fertility rates have remained much higher than Europe.
4. Older Americans, 2008, Tables 7a, Federal Interagency Forum on Age Related Statistics.

5. Older Americans, 2008, Tables 14a, Federal Interagency Forum on Age Related Statistics.
6. In the United States, benefits under DB plans are insured up to a certain level. On termination of a pension plan, these benefits are provided through paying a lump sum equal to their value, through purchase of an annuity, or through a Federal Agency, the PBGC. Benefits earned and above the insured amount are provided if assets are adequate to do so.
7. United Nations Department of Economic and Social Affairs, Population Division, World Population Ageing, 1950-2050, 2002.
8. Older Americans, 2008, Tables 3 and 5b, Federal Interagency Forum on Age Related Statistics.
9. Report from Retirement 20/20: Resolving Stakeholder Tensions: Aligning Roles with Skills, Society of Actuaries, 2008
10. From November 8, 2007, testimony by Michael Stapley, Chairperson, ERIC Task Force on the New Benefit Platform for Life Security to the Subcommittee on Health, Education, Labor and Pensions of the United States House of Representatives.