

## **2009 CCA Annual Meeting**

### **Session 53**

#### ***If I Could Do It All Over Again – Retirement Plan of the Future***

- **Defined Benefit or Defined Contribution?**
  - A combination of both
  - Investment risk and longevity risk should be shared between employer and employees
  - DC provides a lump sum at retirement
  - Matching DC incents employees to save, creating more wealth at retirement when including all sources
  - DB provides monthly income (no lump sum option), protecting employees from longevity risk
  - DB is most efficient retirement vehicle
    - Pooling of risk is key
    - Cost/benefit is weighted toward older employees
    - Benefits are paid exclusively for retirement, unlike DC which provides significant preretirement benefits and significant inheritance for next generation
  
- **Cost-Sharing**
  - Match-based employer contribution in DC plan
  - Mandatory employee contributions in DB plan
    - Allows richer benefit
    - Increases employee visibility, understanding, and appreciation
  
- **Defined Benefit Provisions**
  - Since money spent on DB and DC, employer cost constraint keeps benefit level relatively low
  - Employee contributions allow benefit level to be a little higher than if plan were 100% employer-paid
  - Career average formula has several advantages over highest average pay
    - Reduces impact of abusive pay increases late in career
    - Much easier for employees to understand
    - Careful data maintenance and accrued benefit calculations required annually, as opposed to data-gathering effort to perform calculation at retirement
    - Balance sheet treatment is more appropriate than for highest average pay plan
  - Only base salary included as pensionable pay to help control cost volatility

- Postretirement cost-of-living increases would likely be provided
  - Key objective to plan should be to prevent poverty amongst 90-year-olds
  - 65-year-olds can make ends meet through part-time employment or DC savings
  - For cost considerations, try to keep increases discretionary
- Possible plan design – 1% career average benefit with 2% of pay employee contributions and 2% annual cost-of-living increases
  
- **Funding Policy**
  - Multiple year projections should be consistently analyzed under various economic scenarios – investment returns, interest rate levels, population growth or decline, etc.
  - Contributions in excess of the minimum in good times should be strongly considered to reduce chance of large spikes in bad times
  - Although a perfectly fixed DB cost is impossible to attain, some prefunding can reduce the volatility tremendously
  
- **Investment Strategy**
  - Overall cost goal should be shifted from minimizing long-term cost to maintaining a relatively fixed cost
  - Investment strategy should be shifted accordingly by using less equity exposure than typical 60/40 split
  - In particular, investment strategy for assets covering liability for inactive participants should be looked at separately from assets covering active liability

## 53 - If I Could Do it All Over Again - Retirement Plan of the Future

### Discussion Topics

- Define “Retirement”
  - What does “retirement” mean?
    - White-collar versus blue-collar workforce
  - Is there a “retirement” age?
    - Not age 65 – what is the right age?
    - Dependent on job?
  - Part-time retirement
  - Phased retirement
  - “Retirement” career
  - Impact of government programs
  
- Define “the need”
  - Sources of income
    - Government programs
    - Savings
    - Other deferred income
    - Continued employment
    - Other
  - Expenditures
    - Healthcare
    - Basic living expenses
  - Tax affected “difference”
  
- Define “the income stream”
  - Lump sums versus annuities
    - Guarantee to not outlive your income?
    - Too old to make any more choices?
    - Who’s taking on the longevity risk?
  - Investment options
    - While working
    - When in “draw down” period
  
- Accumulating the “difference”
  - Form?
  - Age neutral?
  - Portable?
  - Employer role