NATIONAL ACADEMY OF SOCIAL INSURANCE

For the Common Good: What Role for Social Insurance?

NASI's 19th Annual Conference

Session III: Facing the Retirement Security Challenge

Thursday, February 1, 2007

This session convened at 3:30 PM in the Ballroom of the National Press Club, 529 14th Street, NW, Washington, DC.

Introductions
Regina Jefferson, Professor of Law, Catholic University

REGINA JEFFERSON: Welcome to the final session of the first day of this conference: Facing the Retirement Security Challenge. I am Regina Jefferson and I will be serving as moderator for the panel. This session will examine changes to America's retirement income programs and how we might address deficiencies in those programs. I'd like to introduce our distinguished panel.

Going from left to right we have Dallas Salisbury, who is the CEO of the Employee Benefit Research Institute. Next is Nancy Altman, who has a 30-year background in the areas of private pension and Social Security and she is currently the chair of the Board of Directors of the Pension Rights Center. Next is David John, who is senior research fellow at the Thomas A. Roe Institute for Economic Policy Studies of the Heritage Foundation. Next is Ron Blackwell, who is chief economist of the AFL-CIO. And finally we have Howard Fluhr, who is currently chairman of the Segal Company having been president and CEO for 12 years. Following their presentations, which will last approximately an hour, we will have 30 minutes for the audience to ask questions.

With that, I turn the podium over to Dallas.

The Retirement Security Challenge
Dallas Salisbury, Executive Director, Employee Benefit Research Institute

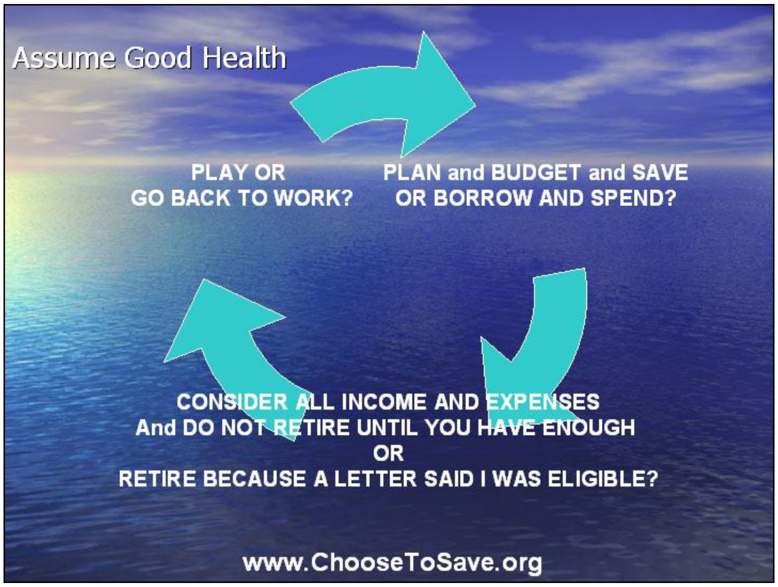
DALLAS SALISBURY: Thank you very much. It's a pleasure to be here. As others have noted, the views expressed here are my own and should not be attributed to EBRI, my colleagues, or those that provide funding for EBRI. I alone should be held responsible and accountable. I shall start with a notation, that I'm sure everybody here has at least heard about the New York Times article of a couple of days ago and the work of Larry Kotlicoff declaring that there is no need for this panel – (laughs) – because according to the New York Times column there is no retirement security challenge. In fact, Mr. Kotlicoff's work, as reported in the New York Times, holds that most people have saved far more than they need to for retirement. If you read the paper on which it was based, I'm sure you will agree with its conclusion that the ideal age 55 wealth accumulation for someone in the bottom income rung, if you want to make sure you have as much as you need, is $2,000. And I'll say no more about that study. (Laughter.)

My reference to the New York Times article is intended to underline that every individual in the world has a different definition of the retirement income challenge. If you will note, earlier this week there was an article in the paper about a new product that AARP Financial Services is launching which is a life income annuity product with one of the major insurance companies. And you will note that in AARP's announcement, they said that it had been modified based on field testing so that you were guaranteed that if you died before you had gotten back all of the money you had given to the insurance company, they would pay you the balance.

In other words, you would be leaving an estate. They did that because they found in their focus groups and field testing that no few wanted to buy a life income annuity unless they could also know that if they died early as opposed to on time or late – (laughter) – that that nasty insurance company would not keep any of that excess money.

And then you go all the way down to the bottom of the pyramid, that segment of the population that lives on SSI, public assistance, and other programs, and for that category obviously the definition of what it takes for purposes of having "a reasonable retirement income" is a fundamentally different definition.

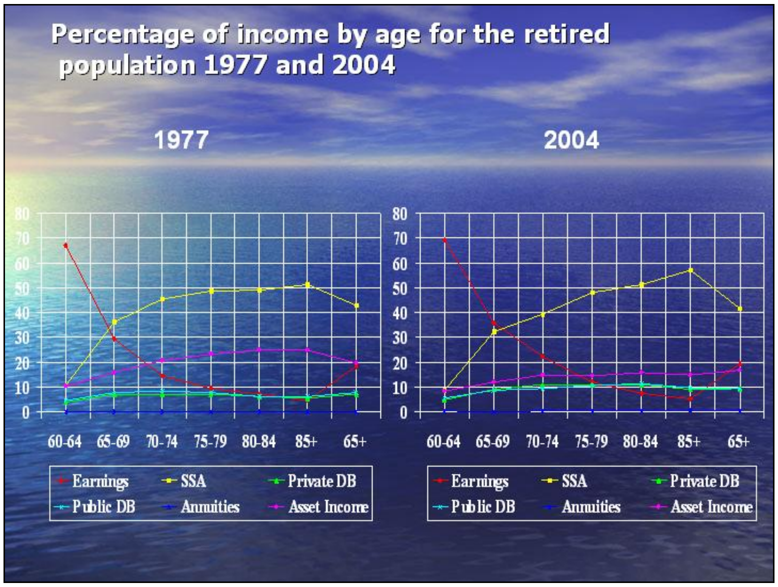
And so the dynamic and the complexity that the panel will talk about, which I think you have heard about in other contexts today, is the challenge of essentially trying to define something like retirement income adequacy when every individual has, if you will, their own personal definition of need.



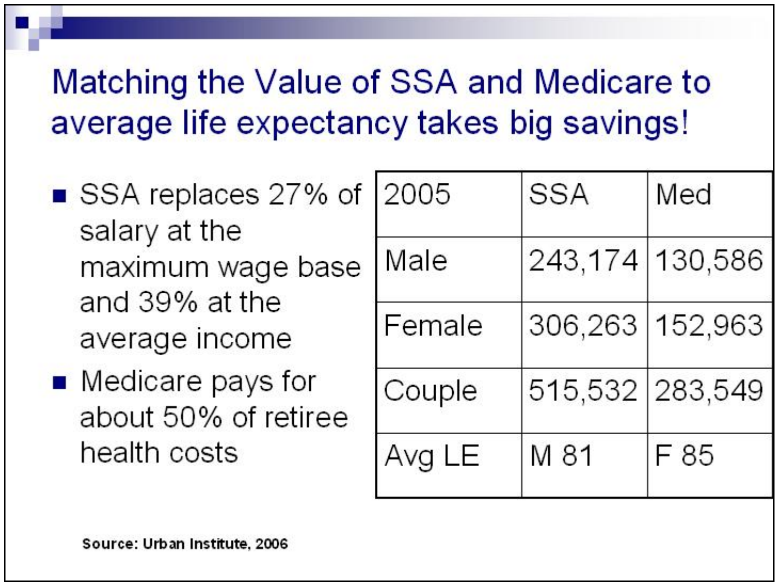
And then we have one other problem which comes up with those that want to make sure they leave money and all other types of calculations, which is everything that's out there tends to get based on the assumption of good health. So all of the analysis in the New York Times article essentially assumes that everybody could still be working as they hit age 66 or age 67, and that it was a choice that they had. It ignores the 40-plus percent of the retired population that is no longer in the labor force by age 62, not because they don't want to be there, but because they have disabilities or health problems so severe that working is not an option.

And so this question of the retirement decision, the adequacy issues, what the nature of the challenge is, not only goes across this tremendous divide of economic situations, but also brings in the health situation that many of the panels here have been talking about.

And how has the world changed relative to retirement programs and prospects? Larry Mishel had a number of numbers on pension and health coverage. With all due respect, some were misleading because they seem to equate access to participation in a pension plan. In fact, access may have very little to do with whether you actually get anything from the pension plan. And even participation in a pension plan has very little to do with whether you actually got something. When push comes to shove, you either got vested or you didn't get vested, and those numbers have changed radically over time, but not in the direction suggested by the Mishel numbers.

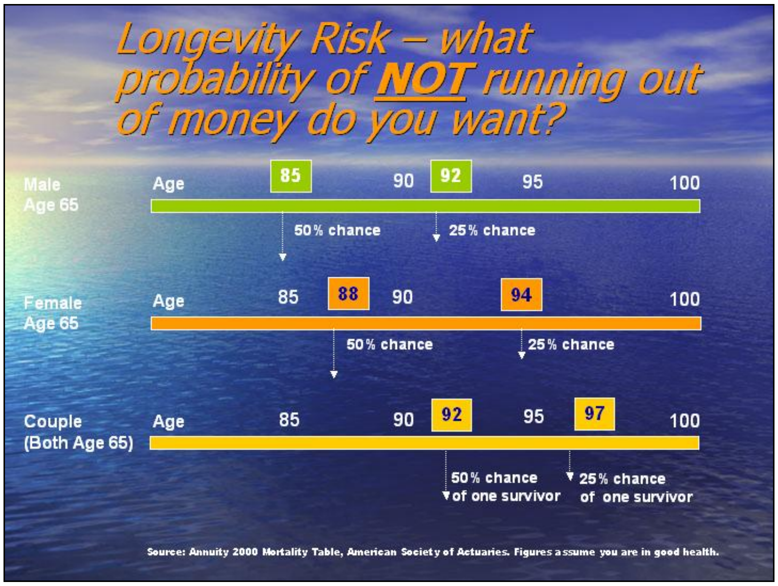


So if you compare the first data year of governmental data, 1977, after the government put into force the Employee Retirement Income Security Act of 1974, to the most recent government data that we had, 2004, you will note that the number of individuals over age 65 with income from work, the red line, has gone up; the proportion of income coming from Social Security, the yellow line, has gone down; the proportion of income coming from pension programs even though sponsorship has declined, the number with income has gone up dramatically. In fact, if you look at 1975 data, the percentage of the over age 65 population found by the Census Bureau to report private employer pension annuity income was 9.9. By 2001, it hit the highest point in history – of just over 24 percent of the over age 65 retired population, and now it has started coming down a bit. But one has to be very careful about which numbers one is considering. Another way to think about adequacy: Social Security, at best, tends to provide only about half of what people need for a reasonable definition of covering basic expenses.



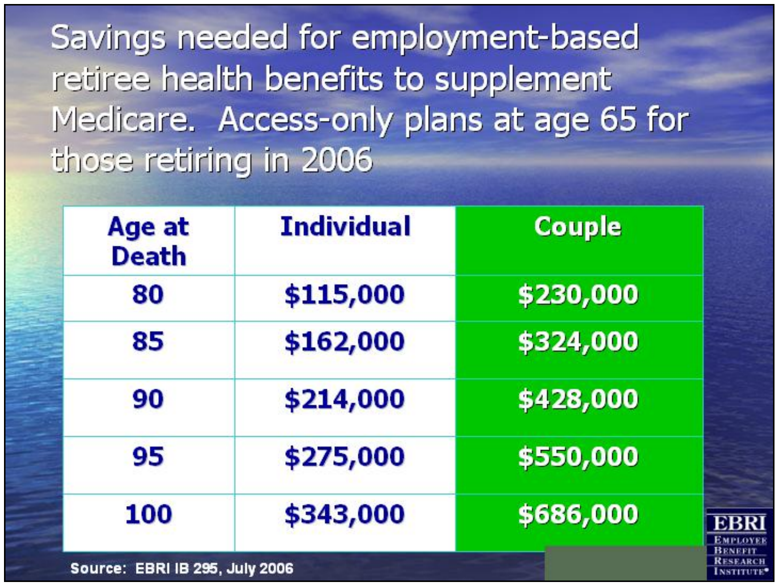
What is the present value at age 65 of Social Security assuming you die on time, age 81 and age 85? Because if you are like my father and you're still alive at 93 and my mother is still alive at 90, obviously the present values for those that live a longer life than the average are a lot larger. At 93 and 90, Mom and Dad have gotten a lot of extra payments from Social Security compared to having died at 81 and 85. They thank each of you for your payroll taxes. (Laughter.) Put against these values of over $500,000 for Social Security and $200,000 for Medicare, the average 401k plan balances: $67,000 in the most recent year. Consider the numbers against the average 401k balance for somebody that has worked 30 years with a given company, they're over the age of 60, and they've been in that 401k plan for 30 years: average account balance the end of last year was $198,000.

So what is the dynamic for the future given that most people, maybe all, think that Social Security's inadequate? What percentage are saving anywhere near enough to even match an average Social Security benefit? Well, the answer is, not many.



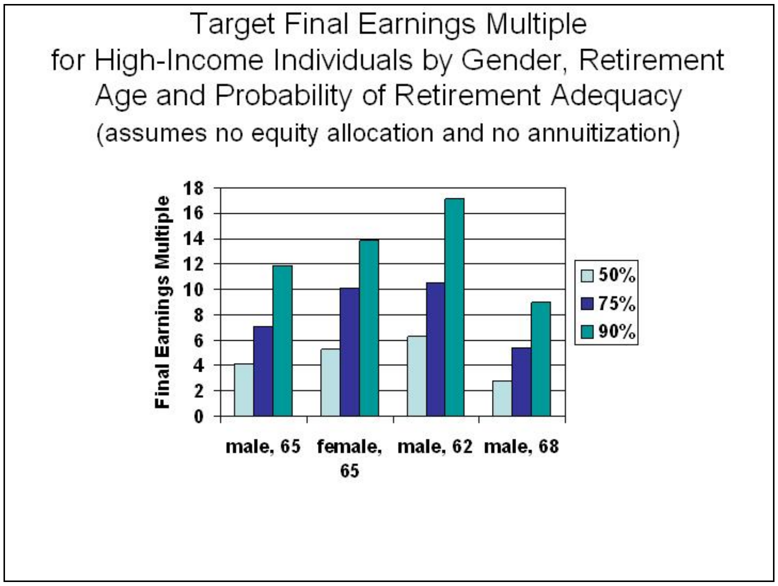
And then there's that nasty life expectancy issue. I go home and see my parents every couple of months outside of Seattle and they regularly, and they have for years, said, "Can't we spend the last of our savings yet? How much longer can we last?" Dad started saying something like that at 75. (Laughter.) And this last time I printed a color version of this chart, took it with me, showed it to mom and dad and said, "You know, at 65 there was a 25 percent chance that one of you would still be alive at the age of 97. At 90 and 93, there's an even greater chance that one of you will be alive at 97." At that moment I think they viewed me as the most depressing person they knew. (Laughter.)

And then there's a small issue called retiree medical. Retiree medical is something that the luckiest in our society had a whole lot of, pre and post-Medicare. For large employers it got to be nearly "universal," in quotes. In the private sector, 70 percent is nearly universal. Among the largest companies that's now down to about 34 percent. We expect that in another 10 to 15 years, it will be down to about 12 percent, which is about the number across the full workforce that have any supplemental health coverage from past private employment now. If you look today at all retirees who retired from public and private employers, the high point of such supplementation through past employment reached about 28 percent. Not all had it paid for by that employer, but they could at least buy it from the employer.

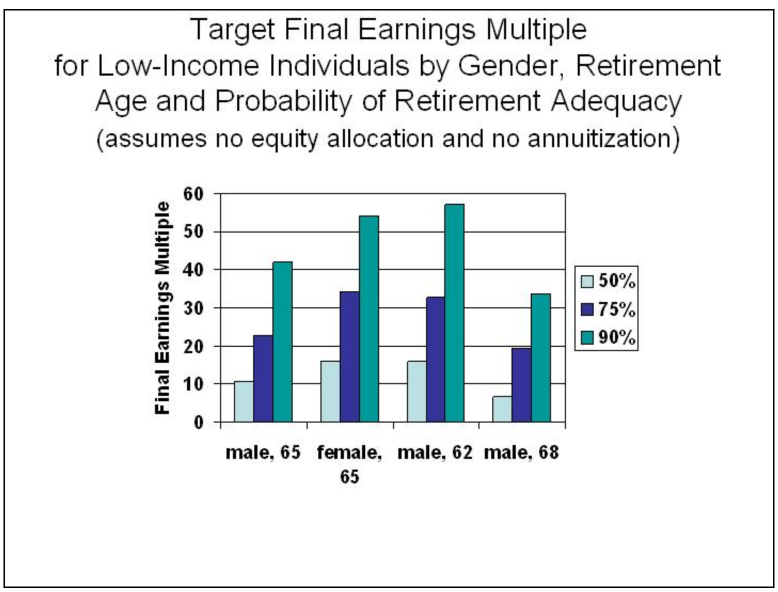


So over two-thirds of American retirees today, and before long about 90 percent, have had to save money to pay for retiree medical costs above Medicare, which on average pays about half of retiree health expenses. Living to average life expectancy would require an individual to save over $200,000 and living to 100 closer to $600,000 I personally go to life expectancy calculators on the web once a month. I do five life expectancy calculators just to keep myself motivated to choose to save. (Laughter.) On average, they now say that I should expect to still be alive at 107. So, I need a lot of money for retiree medical. The prospect of 107 motivates me to keep working, motivates me to keep saving, motivates me to continue to be a member of this organization. (Laughter.) So then think about the issue of multiples of final annual salary and how much one needs. This is against the common financial planning advice, oh, 70 to 80 percent of pay is all you need.

I was doing a speech in Toronto, Canada. The chief economist of the largest bank in Canada was speaking just before me. She said the bank had just finished a massive retirement needs study and they could categorically say that what people need as a multiple of final earnings to make it through retirement is four times final earnings.



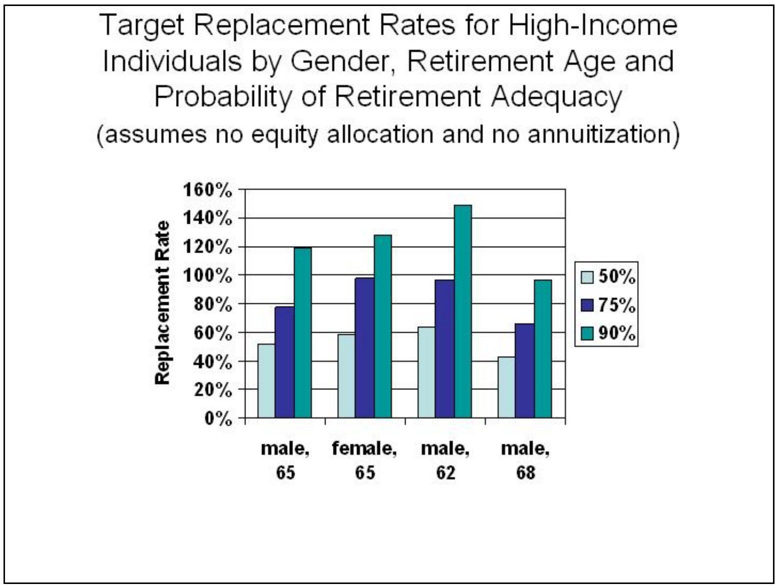
Now, if you're a male, you're 65, and a 50 percent chance of not running out of money before you run out of life is good enough for you, a four time multiple's okay. If you're willing to accept a 75 percent probability of not running out of money before you run out of life, then it's up to about 7.2 as a multiple. If you want a 90 percent probability, then you've got to get up to just short of a 12 time multiple; women substantially higher than that. If you want to retire at 62, it really gets challenging. You work a little longer to 68, not as bad. And this is for high-income individuals.



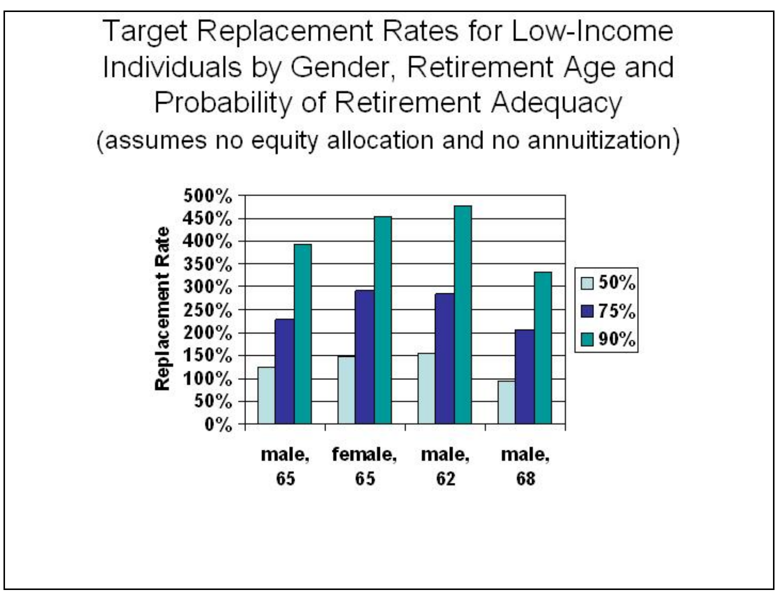
If you're a low-income individual, then it starts to really get depressing: ten times for a 50 percent chance, a 42 time multiple for a 90 percent probability of not running out of money before you run out of life.

So thinking about average life expectancy– we call it life expectancy. What that means is you die on time. Half of the people do that. And people think that's enough. Put it in terms of replacement rates and this notion of 75 percent for everybody goes out the window. I got a call yesterday and the caller said: "but you guys make it too darn complicated." We need one number that will work for everyone. Well, the problem with one number is we're a diverse society, we have diverse needs, and we do diverse things. One number is not possible.

A high income individual that wants a 90 percent probability of not running out of money before they run out of life needs a 120 percent replacement rate.



And a male, if they're low income, needs a 372 percent replacement rate.



Why would there be such a wide variation? Well, take the comments of the last panel. Think of the individual who had total earnings $9,200, which is well below the poverty level. Would 100% replacement represent adequacy?

There are many retirement security challenges ahead. The decline of life income annuity payments from pensions, low individual retirement savings by most Americans, limited and declining availability of retiree health insurance from groups, and the clear need to modify Social Security and Medicare to make them sustainable, all represent challenges. Taken together they lead to a refrain: Don’t want to work forever? Choose to Save®.

Choose to Save.®

Thank you. (Applause.)

Turning Perils into Opportunities: Perfecting Retirement Security in the 21st Century

Nancy Altman, Chair of the Board, Pension Rights Center

NANCY ALTMAN: Let me make clear at the outset that in these remarks I represent only myself and not necessarily the views of the Pension Rights Center.

As everyone in the room knows, the legs are wobbly and the paint is peeling on the three-legged stool. The Social Security leg has a projected long-range deficit. Private employers have been abandoning traditional pension plans, the second leg, at an alarming rate. Although new 401k plans continue to form, these arrangements have many shortcomings and are unlikely to generate much retirement income for most Americans. And finally, private savings, the third leg, are at their lowest rate since 1933. The picture appears bleak indeed.

And yet, paradoxically, these unwelcome facts give us as a nation a valuable opportunity: the chance to get our retirement income system right for the first time since early in the 20th century. Let me explain.

The three-legged stool metaphor portrays a system that is in many ways a historical accident – certainly not a carefully thought through, rational policy response to the quest for secure, adequate, fair retirement incomes for the nation's workers.

Unlike Europe, which enacted social insurance soon after the start of the industrial revolution, the United States waited until 1935, more than a half century after the creation of the first employer provided pension. By that time, private pensions were a small but established part of the economic landscape. Taking them into account, policymakers crafted Social Security not to replace private pensions, but simply to be a floor of protection.

Then, just six years later, we entered World War II. During the war, wages were controlled, but deferred wages were exempted. Private pensions became a convenient vehicle to circumvent the government controls and compete for labor at a time when it was very scarce. During the same period, Congress failed to raise Social Security benefit levels and consequently, they eroded substantially.

Experts at the time recognized that the minimal Social Security benefits, even coupled with private pension coverage, would result in inadequate retirement income for most Americans and would have to be supplemented by individual savings and investment. In 1949, one of those experts, Reinhardt Hohaus, used the three-legged stool metaphor in a speech, and it caught on.

The image of the three-legged stool makes clear that under our system, all three sources of income are necessary for most workers to achieve adequate retirement income. In this way, the metaphor enlightens, but the brilliant jurist, Justice Benjamin Cardozo, admonished in another context, "Metaphors… are to be narrowly watched, for starting as devices to liberate thought, they end often by enslaving it." I think the three-legged stool metaphor has done just that.

When our minds picture a three-legged stool, we automatically picture one with three equal legs, but the three sources of income are not equal.

Private pensions have never worked as well as Social Security in achieving public goals. This is completely unsurprising. Historically, employers created these voluntary arrangements for personal and business reasons, to tie employees to them, to provide for their own retirement or the retirement of the top executives, and so on. It was only in the 1930s, as the federal income tax was dramatically expanded and as enterprising insurance agents marketed private pensions as tax loopholes, that the government began to play catch-up with these arrangements, seeking to ensure that at least some of the benefits went to low and moderate-income workers. Private pensions at their height have never covered more than about half the workforce. And they are inherently insecure.

Nor are private savings an equal leg, notwithstanding the metaphor. Low and moderate-income families that can barely meet current expenses lack the discretionary income, even with the incentive of a tax subsidy, to build a significant portfolio of stocks and bonds to be drawn upon only at retirement.

The Social Security leg is vastly sturdier and better built than the other two. Social Security is fully portable. It covers virtually the entire workforce. Its benefits are fully backed by the federal government, which, unlike private employers, can raise taxes and never goes out of business. Social Security spreads risk much more widely. And Social Security is much more efficient than the other two legs, returning in benefits more than 99 cents of every dollar collected. In contrast, within just the last few months, ten class action lawsuits have been filed against major corporations challenging, as excessive, the fee structure that is used by most 401k plans in the country.

The familiar metaphor of the three-legged stool lulls us into believing that it is essential to strengthen and reinforce each of the three legs. After all, how else are we to keep the stool upright? But of course, we're not trying to stabilize a stool. To help us untangle the retirement security challenge, I think we first must clear our minds completely of the image of the three-legged stool. When we return to first principles and think about the problem with fresh eyes, free from the metaphor's stifling grip, the solution becomes clear.

Our goal has always been to permit every American worker to retire with a secure source of income that adequately replaces pre-retirement wages. Social Security meets the goal perfectly except that its benefits are inadequate. If we were wiping the slate clean and starting over at the dawn of the industrial revolution, we could simply enact Social Security with higher benefit levels. Employers and individuals would be free to supplement Social Security as they are now, just not on a tax favored basis.

Imagine with me, if you will, such a world, one without an annual tax subsidy for private plans, a subsidy of over $120 billion a year, the largest in the income tax code. Imagine private pension reserves of $10 trillion freed up for other purposes. It's true that the $10 trillion is a significant source of capital for the stock market, but this capital can be found elsewhere as I'll explain in a moment. Contemplate this dramatically more efficient world: no Employee Benefits Security Administration at the Department of Labor with its reporting and disclosure requirement and enforcement responsibilities; no Employee Benefits Plans Office at the Internal Revenue Service with its cumbersome nondiscrimination rules and other regulations. Think of all the lengthy, expensive litigation that courts would be freed from. Imagine a world without the dislocations, hardships, and unfairnesses that result from private plan terminations and wrongful denials of benefits. Picture a world without a need for the Pension Benefit Guaranty Corporation, with its insurance premiums, reserves of $60 billion, and deficit of $18.1 billion dollars. And most importantly, envision a world where retirement benefits and costs, as well as risks, are shared equitably and broadly across the entire working population.

What I've asked you to engage in is but a thought experiment. It is not the dawn of the industrial revolution and I'm not advocating that we turn our backs on private pensions and private savings. We should be strengthening and encouraging all forms of retirement income, but with one very large caveat: we should evaluate all proposals for change in light of their costs, including the cost of lost federal revenue, and in light of what we're trying to achieve.

If we want to improve retirement security, the fairest, simplest, most cost effective, and most efficient way is to raise Social Security benefit levels. I recognize, of course, that given Social Security's long-range deficit and more importantly public perceptions that the program is going broke, it may not be feasible to raise benefits at this moment. Our first priority has to be restoring the program to long-range balance, but we should do so with this larger picture in mind. In restoring Social Security to balance, we should not reduce the benefits of the one part of the retirement income system that is the most effective. (Applause.)

Fortunately, Social Security can be put back in balance with three program improvements, each of which constitutes sound public policy. First, the practice of collecting taxes on 90 percent of all covered earnings should be restored. Congress intended to make this practice automatic, but the annual adjustment enacted in 1977 has not produced the desired result, because it is tied to the annual growth nationwide in average wages. The 90 percent target has declined steadily over the last two decades because the wages of the highest paid workers have grown much faster than the average, causing an increasing amount of the earnings of the highest paid to escape taxation. (The restoration should be done extremely gradually – over a period of decades – so that the impact on the six percent of workers earning above the maximum taxable wage base would be close to trivial. As I would phase in the restoration, the most any taxpayer would experience in any given year is one additional week of FICA withholding. If the proposal had been in effect this year, covered workers earning $97,500 or more would have had withheld only an additional $120.90 in 2007. Workers earning under that amount would have been unaffected.)

Second, the law should be changed to permit Social Security to diversify its portfolio and invest in stock funds as well as Treasury bonds just as virtually every other pension plan does. There is ample precedent for responsible investment in equities by today's public pension plans. Assets of the Railroad Retirement Board, the Federal Reserve Board plan, Canada's Social Security plan just to name just a few, are invested in equities. And proper investment of our nation's Social Security assets can offset investments lost by the termination of private benefit plans, or assets invested too conservatively, from the economy's perspective, by participants in 401k plans.

Finally, the estate tax should not be eliminated, as the president has proposed, but instead should be converted into a dedicated Social Security tax. The estate tax is an appropriate source of funding for partially paying down Social Security's legacy debt, as well as a useful method of mitigating to a very small extent the increasing disparity in wealth between the top 1 percent of Americans and everyone else.

The three proposals I've just highlighted would put Social Security back into close actuarial balance and position policymakers to raise its benefits in the future. (The brevity of time has not allowed me to discuss the question of funding the higher benefits, but I'm happy to discuss that during the question and answer part of the session.) When policymakers finally realize that private pensions and individual accounts are not the answer to the retirement protection challenge, but rather a fully adequate Social Security system is, at that point all Americans will have the luxury of a secure retirement following a lifetime of labor. When that time comes, we will have stopped trying to prop up the three-legged stool that exists only in our minds.

Thank you. (Applause.)

Improving Retirement Security in the Defined Contribution Era: From the Auto IRA to Social Security

David John, Senior Fellow, The Heritage Foundation

DAVID JOHN: Note to self: don't follow Dallas or Nancy to the podium. (Laughter.) I'm going to start by invoking my favorite public policy gurus Monty Python: "And Now for Something Completely Different."

First, thanks to NASI for having me. I greatly appreciate the opportunity to address my fellow members of the Academy. Let me invoke the plausible deniability clause in that Heritage is not responsible for anything that I have to say here; indeed, they may not know what I'm about to say and so it's not fair to blame them for it.

I'm going to reverse the title of my talk that's in your paper that says, "From Auto IRA to Social Security." I'm going to do Social Security first, but I want to do it relatively quickly just simply by stating first and foremost we need some sort of bipartisan consensus on how to fix this program. There are an awful lot of people who are talking past each other and that's all very nice. It gives me a job that I have lots of fun doing, but it doesn't make my 20-year-old daughter's retirement security any better. As a matter of fact, I would argue that the delay in doing something about Social Security in the long run is going to cost her more than it needs to.

In order to do that, all sides need to agree that there would be no pre-conditions. Now, just because something is on the table, doesn't mean that it will be in the final agreement. Just because you're willing to have something discussed doesn't necessarily mean that you agree with it, or that you endorse it, or that it will survive to the end. But the first thing, as with negotiations that ended the Vietnam War is to get people at the table, then we can discuss the shape on the table and the agenda and then maybe we can get to the actual meat of the discussion. Now, let me give you a slightly different view on Social Security and other areas. I'm going to take my inspiration from the subheading for this conference: What is the Role for Social Insurance?

I believe in social insurance. I believe that it is absolutely vital to a society of the type that we all want to live in, but that doesn't necessarily mean that it doesn't change over time. Social Security did not spring forth full formed from the head of Franklin D. Roosevelt. There have been many changes over time. FDR might not actually recognize the Social Security program that we have today. He'd recognize some basic aspects of it, but not the whole thing. Social insurance must be affordable, it must target the people who need it the most, especially in an era of limited resources and if you believe in economics, every era is an era of limited resources and social insurance must be appropriate for the era. If you look at today's Social Security essentially it is best suited for a type of social organization, single earner families, that increasingly doesn't exist anymore. And is likely that single earner families will never again be dominant the way they were in the 1930s.

Social Security today could be regarded as actually being two different social insurance programs. Let me take a step back. If you look at auto insurance, there are actually two levels of protection that are available – one that you are required to have and one that you can have. You're required to have liability insurance to make sure that if you hit somebody else's car, they aren't at loss. You also have the option of buying collision insurance which would replace your car in the event that it's damaged or destroyed. I would argue that today's Social Security program, and I am asserting here the disability program is to my mind a very different type of insurance that needs to be considered in a very different manner, actually is two insurance policies.

There is social insurance policy number one, which is to keep people from living in poverty during retirement. Social Security doesn't do necessarily a great job of that. It is possible for a career low earner to retire with a Social Security benefit after 35 years of work that's below poverty. Today's Social Security is also an insurance policy to an extent against inadequate income in retirement. It doesn't do a very good job of that either except for the lowest income workers.

Now, one option for adapting Social Security to today's workplace and budget would be to separate the two. We could separate the two so that every worker who works 35 years, whatever is the appropriate time, and if it were me, I would add credit for time spent raising children, time spent dealing with elderly relatives, et cetera, receives an inflation-adjusted flat benefit that is greater than the poverty rate. I would put that benefit amount in one area and I would structure it as a government paid program. It just so happens that the revenue generated by our current payroll tax structure could pay that benefit for the foreseeable future.

I would suggest there is a second level benefit – protection against inadequate retirement income – that might be better satisfied by a savings program. It may be time to consider expanding the definition of social insurance out of just government paid Social Security, Medicare, et cetera, and into the provision of the ability to save for retirement. Now, I'm not suggesting here that this means that everyone will participate. I'm not suggesting that it is necessarily up to the government to make sure that I have a retirement income equal to the 80 percent of pre-retirement income level that financial experts recommend or if I listen to Dallas – and I think Dallas is one of the reasons why high buildings have windows that don't open – (laughter) – savings equal to 42 years of earnings or something like that. But, I would suggest that it is part of the social insurance framework to make sure that every worker has the ability to save, every worker has the option of a pension savings account that is structured in a way, so that they don't have to have an MBA in finance to understand and operate it.

If we look at basic numbers right now including full and part time workers, there are roughly 71 million American workers out there who work for a company that does not offer them any type of retirement plan, DB, DC et cetera. They're basically on their own. Yes, there is an IRA that is out there, but the highest participation rate that I've ever seen for an IRA was 17 percent in an ICI study and I would argue that it's probably more in the low single digits. It is time to require employers over a certain size to offer a retirement savings plan. I'm not suggesting at this point that we require employers to match employee savings. I'm not suggesting at this point that it has to necessarily be an ERISA plan. Mark Iwry of the Brookings Institution and I wrote a paper for the Retirement Security Project which is called "Automatic IRA." I'm not going to spend a lot of time summarizing that paper right now, but it is on both the Heritage website and the Retirement Security Project website.

The paper outlines a system that includes a requirement that employers with more than 10 employees must open up their payroll system to allow workers to have an IRA that is contributed to through payroll savings. We figure that this is a start towards improving retirement savings.

Realistically, my 20-year-old daughter who's in the process of training to be a nurse, is going to go to work after college first for a large hospital and there she'll have a 401k plan. She already knows that she needs to participate in a retirement savings plan from the day that she goes to work onward. From the large hospital, she's going to move to other practices. She may move to a small practice, she may move to a public agency, she may be a private duty nurse. The odds are she will not have a way to save for retirement at all of those jobs. If we look at the Bureau of Labor statistics, a worker of her age can expect to have somewhere in the neighborhood of 10, 12, 15 jobs in a career.

Now, let me just say as a side note, if you have a one-year qualification period for each one of those jobs before you can participate in a pension plan, assuming they have a pension plan, that's a quarter of her career. In the long run, this is an issue that needs to be addressed.

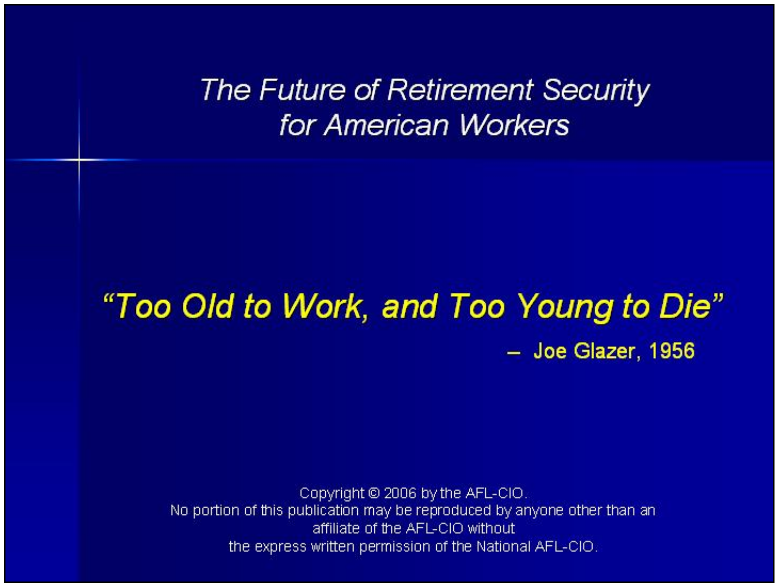
We need to set up a basic retirement savings plan that includes a low cost investment structure, if workers like Meredith don't choose something else. I'm thinking in terms of the Thrift Savings Plan which is available to federal employees now. We need to have a pension savings system that follows her around, automatically without her necessarily having to fill out five pages worth of paperwork every time she changes jobs, much less having the opportunity to take the money and spend it at that time and the system needs to be automated. Meredith is not going to be a financial wizard. She's smart, but she just doesn't care about stocks and bonds. She doesn't really care which of the 32 different funds, if that's the right number that Fidelity offers, offers her the best retirement savings option.

We need a retirement savings program that is set up so it meets her needs. The amount that she actually can contribute is automatic unless she chooses a different figure. The basic investment is automatic, unless she chooses otherwise. The annuity function – this is something we have not focused on to the extent that we must eventually – must be there, it must be cost effective and she must know what level of retirement income she will be receiving from her savings. But at the same time, if she doesn't choose to make another choice, the program needs to make them for her automatically. This, to my mind, is a simple expansion of the concept of social insurance. It's an important change. The fact is we're going to deal with today's Social Security system. The benefits probably aren't going to go up, because we can't afford to pay higher benefits and there is this minor worry called healthcare off to the side that may soak up some of the available resources.

The fact is that defined benefit pension plans, as much as I would love to have had one myself and would love for my daughter to have the ability to have one probably won't be there for her. If that's the case, if we're going to move into a defined contribution pension world, then we need to have it structured in a way that our kids and grandkids can actually make use of it, and so that when they retire they the same level of retirement security as their parents and grandparents.

Thank you. (Applause.)

Too Old to Work and Too Young to Die: The Future of Retirement for American Workers
Ron Blackwell, Senior Economist, AFL-CIO

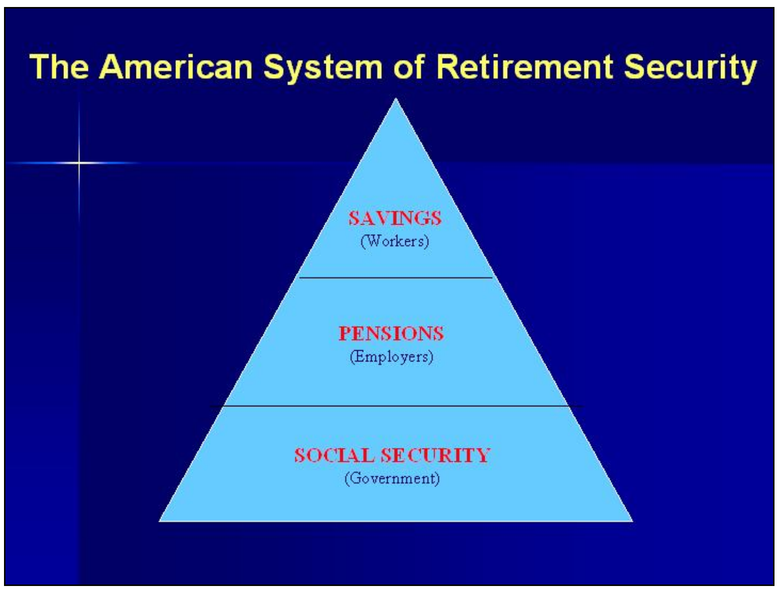


RON BLACKWELL: David, I was very disappointed. I thought we had agreed that you were going to say what I was going to say and I was going to say what you were going to say. (Laughter.) We'd both be risking our jobs, but it will make it a lot more interesting. (Laughter.) I chose to title mine, "Too Old to Work and Too Young to Die." You may be familiar with the saying, but this is the title of a song by Joe Glazer inspired by a UAW strike in 1950. I was thinking a lot about Joe Glazer both because he's a friend and a former organizer in the Textile Workers, which is the predecessor union of the Amalgamated Clothing and Textile Workers Union where I come from. Also he passed away last year and he had gone on to become one of the great labor troubadours of our time; I would recommend him to you on many counts and his records are available in our union's shop, if nowhere else.

I've been thinking about this song for two years since I was attended a G8 Labor Minister's conference in London as a part of the labor delegation where the subject was active aging. And I was somewhat surprised to discover the breadth and the depth of agreement among these very comfortable individuals, who I'm sure had carefully prepared for their own retirement. Though there are very many good things to be said about the fact that people are living longer, but not a single word was said in support of retirement.

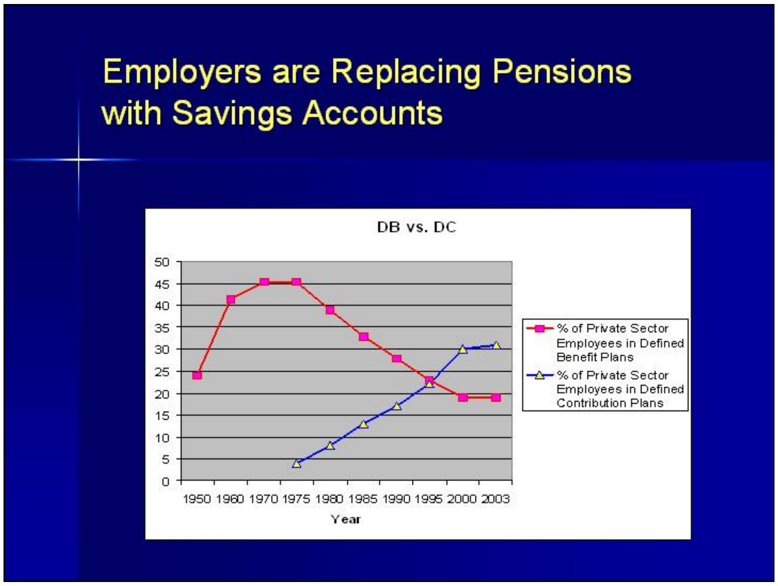
In fact, the comment that really got my attention was made by the labor minister of the new Labor Party in Great Britain, who commented only half jokingly to the ministers three-quarters through the meeting that it was great that they had gotten that far and nobody had used the phrase, "work until you drop." Because they were convinced that for the people of the richest countries of the world, at the richest time of their wealth, we simply could not afford retirement any longer and people were simply going to have to work longer. In fact, it seemed to me, indefinitely hence the meaning of the term "active aging." Business was also represented. They had nothing to say for retirement, either. Labor was the only voice there that did have something to say for retirement. Anyway, this is why I was thinking of the title of Joe's song.

The ability of American workers to retire when they are no longer able to work and still enjoy a decent standard of living is an important value for American working families and their unions and a measure of our social progress as nation. The distinctively American retirement system – and here I want to join Nancy in criticizing this three-legged stool metaphor as well as the internationally famous three-pillar system of retirement security. On the grounds that Nancy suggested, which is that it suggests that each of these legs does the same thing and each are equally important.

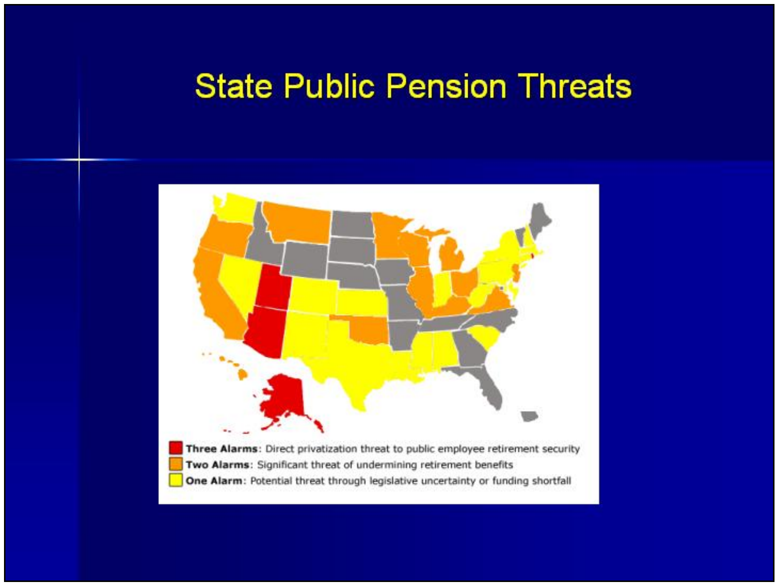


And I'd prefer to prefer to represent it as a pyramid in which each of these rests on one another and the one cannot substitute, because they don't do the same thing in providing retirement security. But the American retirement system, and here I recommend to you Jacob Hacker's initial book, on the Divided Welfare State, which is premised on a principle of mutual responsibility in which government provides a foundation of retirement security through Social Security, employers provide divide benefit pensions and workers save by contributing what they can to individual savings accounts. As important as it is, the American system in under attack as government on the one hand and employers on the other threaten to abandon our system and shift all responsibility for retirement security onto workers and their families, this at a time when the enormous baby boom generation is beginning to retire and the retirement security is more critical than ever in maintaining our country's living standards.

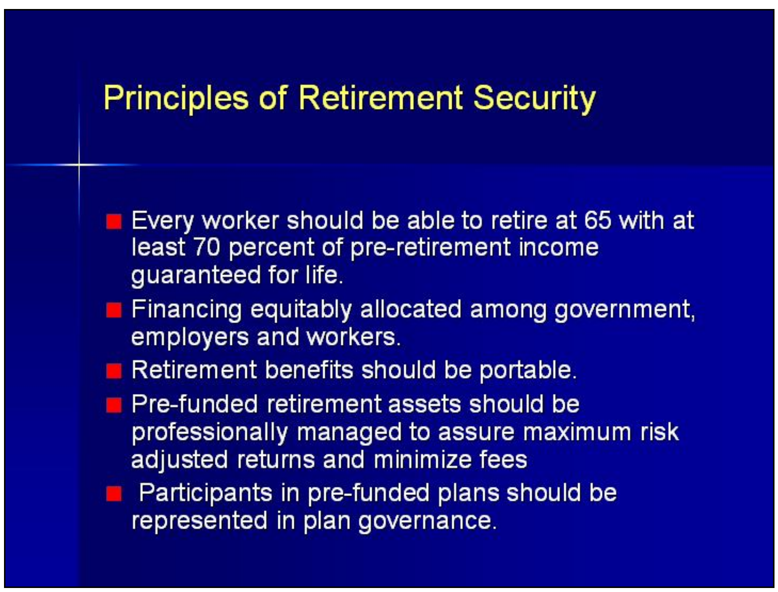
Social Security, I don't need to remind this audience, was responsible for turning older Americans from the poorest cohort of American society into the least impoverished segment of our society. The American people rejected President Bush's attempt to privatize Social Security, but surely it will not be the last. At the moment however, an even more urgent challenge is posed as private employers continue to shift from defined benefit to defined contribution plans and even very prosperous companies in healthy industries freeze or terminate their plans. Several states are also moving to extend the retirement age of public sector workers and limit their responsibility for retirement security of their workers. I recently worked with the transportation workers in New York who had to go to jail in order to try to defend this right recently, and they still don't have a contract, a settlement.



Of equal concern, politicians and policymakers in both parties seem resigned to continuing decline of real defined benefit pension plans and are looking to improve worker savings plans as a substitute. And here's the most important thing I have to say. While savings plans are the important supplement of pensions, they can never be a substitute. As the diagrams show, the peak of the pyramid is worker savings. It rests on pensions, it rests on the contribution of employers and it rests on the contribution which government makes to this system. The shift from real defined benefit to defined contribution plans has seriously weakened their retirement security of older workers. Economists – and here I'm thinking of Ed Wolfe at NYU – estimate because of the shift of defined benefit to defined contribution plans alone, older Americans aged 55 to 65 have a lower net worth than their parents did, despite the enormous increase in wealth from one generation to the next.



The enemies of the American retirement system want to transform it from a system of mutual responsibility in which government, employers, and workers all play a part into a system of personal responsibility in which workers bear all the risk and responsibility for their retirement. We cannot allow the government to avoid its responsibility for retirement security and we certainly cannot allow employers to do so. We must rebuild the American system of retirement security.



We have a few principles that we've adopted, just to summarize quickly. Every worker should be assured of the opportunity to retire at some point in their working life, at 65 we suggest in the United States, with at least 70 percent of their pre-retirement income with special account taken by the particular occupations that workers are in. We want the financing of the risk involved in the system to be allocated equitably among individuals, their employers, and the government. We want pre-funded benefits to be professionally managed to maximize risk and minimize fees and should be governed in part by the participants themselves. The devolution of governance of these systems into the hands of experts is very problematic from our point of view.

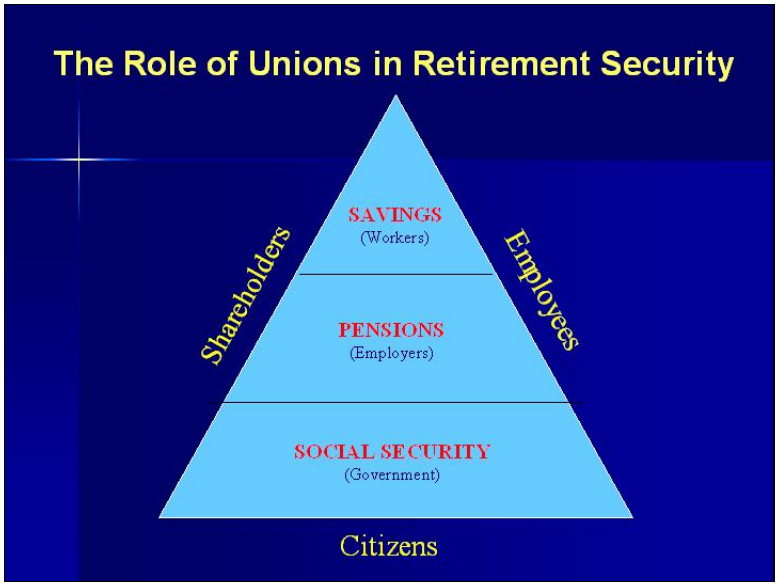
Workers' retirement benefits should be protected from inappropriate risk, and here I'm thinking presently of hedge funds and private equity firms, and I can talk more about that if you're interested. Retirement benefits should be portable to the extent possible and workers should get a fair deal from defined contribution retirement savings plans and those plans should be structured to work for the best interest of workers and not Wall Street or employers. Here I'm talking about the conflicts of interests with which the mutual fund industry is just riven that need to be cleaned up if this money is actually to work for the people who put their money into these plans.

Reforms that serve these principles can vary, but should evolve from the American system of mutual responsibility in which employers and government continue to play essential roles. One of the possible lines of reform might be as follows. Social Security certainly needs to be enhanced to serve as a foundation for retirement security, providing government-defined benefits for life to retirees. If employers continue to withdraw their support for defined benefit plans, Social Security will need to be bolstered to compensate. Pre-funded employer-sponsored defined benefit plans should continue to provide an essential supplement to Social Security and should be greatly expanded to cover all employed workers.

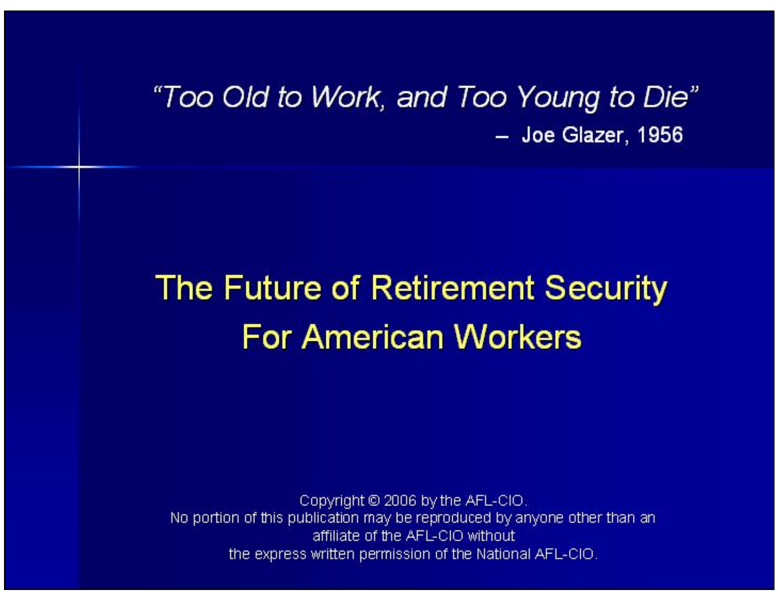
Employers should either be mandated to offer defined benefit pension plans or be required to contribute to a government sponsored Social Security supplementary pension plan that would be portable as workers move from employers to employers. Here note, David, I'm with you on the mandate, but it's just the thing to be mandated which is a little different. (Laughs.)

Employers should have the option of offering their employees a defined benefit plan that meets mandated standards of benefits, funding governance, and structure. Employers who do not wish to offer such a plan should be required to contribute to a public fund, which may be administered privately, to provide portable defined benefit pension plans to their employees. The public fund would be financed either by a profits tax to minimize the burden on struggling companies. The public fund could also, and this is my preferred solution, be financed by a shared contribution based on profits to minimize the claim on corporate revenue and real investment.

Defined benefit pension provided by the public fund would be fully portable. Whether administered publicly or privately, the defined benefit fund would involve plan participants in the governing boards of those plans. Employers should be offered tax advantaged retirement savings plans. Those plans should be effective, efficient, low cost, and safe. Retirement savings plans should supplement, not replace employer funded plans and deliver a lifetime retirement security. The labor movement is committed to fighting to protect to improve our system of retirement security.



I just put this back up here to show you that we represent workers as employees of course. We're famous for that, but we represent them also as beneficiaries of their plans, as shareholders. Our plans own 26 percent of all publicly trade companies in this country. Whether as shareholders or as employees, our members are citizens and our program to defend retirement security whether it's with respect to Social Security or worker savings involves the coordination of the roles of workers as employees, as shareholders and as citizens. I don't have time to talk about exactly how we're doing that, but perhaps we'll have time to get to it in the discussion.



I'll conclude by saying that surely the richest country in the history of the planet can afford to repair the condition that inspired the 1950 lament of Joe Glazer, labor troubadour:

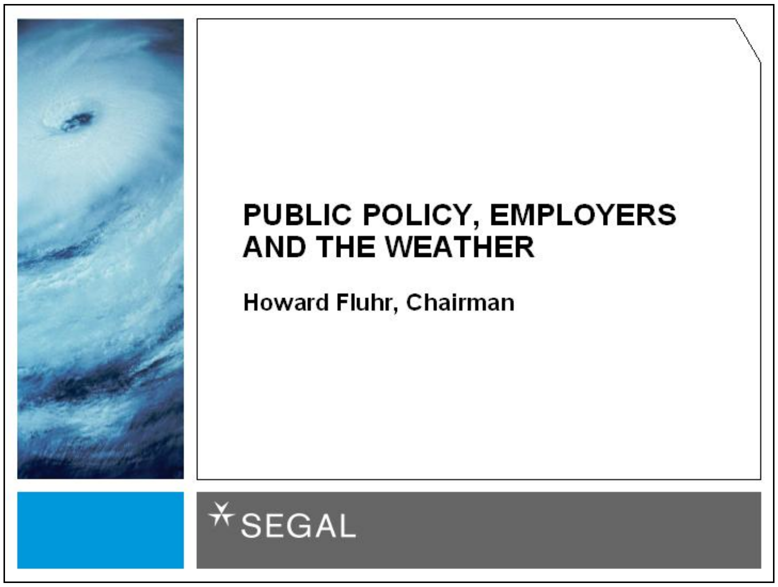
> You work in the factory all your life trying to provide for your kids and your wife. When you get too old to produce anymore, they hand you your hat and show you the door. Too old to work, too old to work, when you're too old to work, and you're too young to die, who will take care of you? How will you get by? When you're too old to work and you're too young to die?

America can and must do better to restore the promise of a secure retirement for all American workers and not just a privilege for the wealthy few.

Thank you. (Applause.)

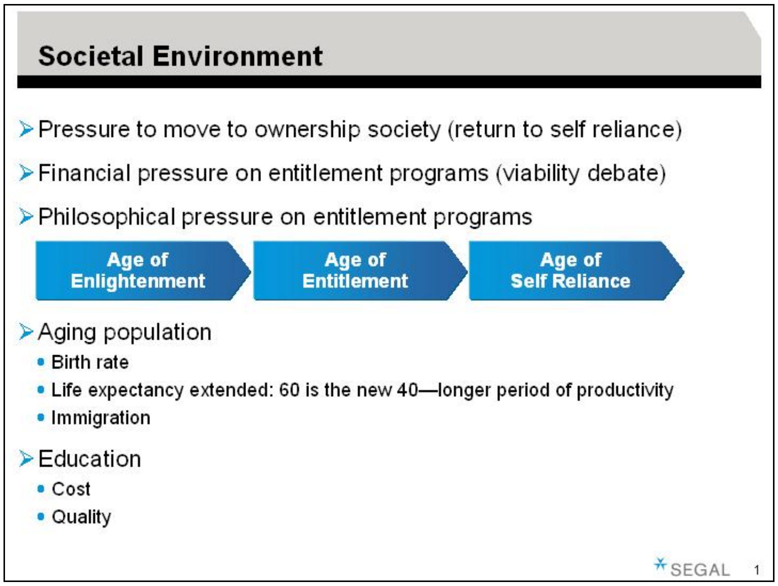
Public Policy, Employers and the Weather

Howard Fluhr, Chairman, The Segal Company



HOWARD FLUHR: I've been wondering why I agreed to be the last speaker today. There have been 19 terrific speakers. I now know a lot more than I did this morning when I arrived, which I expect is also the case for many of you as well, so then what can I talk about? Well, I was told originally that I had five hours, but – (laughter) – you'll be glad to know that I did a little editing while others were speaking today. I understand that I have some challenges. In addition to being the last speaker, I understand that I'm standing between you and food, and it's been a long day. Moreover, I'm not an economist. I'm not a historian. I'm not a public policy analyst. And heaven forefend, I'm an actuary; I conclude, therefore, that I face a multitude of challenges.

Let me tell you both what I'm trying to accomplish and what I'm not trying to accomplish. I'm not here with a point of view. I'm not a spokesman for anyone or any group. You see in the title a reference to public policy, employers and the weather. You might be wondering about how weather fits into this discussion -- in time, you'll find out. I'm here merely as an observer of a state of affairs and with a suggestion as to how we might improve that state of affairs.

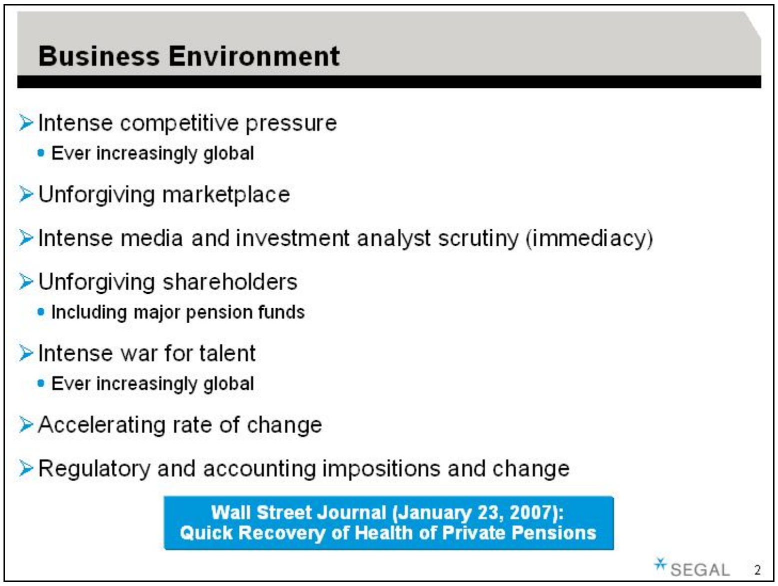


Let's look first at the societal environment. There's certainly pressure being exerted to move to an ownership society. We heard earlier today about the power and use of language, hence the choice of "ownership society" as a term – a term loaded with positive connotations; indeed, a return to self-reliance. Some students of history will say self-reliance isn't exactly what it was cracked up to be, but that's part of the dynamic public discourse in society today.

There is enormous financial pressure on entitlement programs. There's an intense viability debate, and I will tell you from the point of view of this one actuary and, dare I say, the profession in general, while not purporting to speak for the profession as a whole, that financial prospects for Medicare, if unattended, are profound. In contrast, Social Security can be repaired because there are a number of fixes which can get us to the right place. There's also philosophical, perhaps polemical would be a more accurate description, pressure. I would observe that the push for an ownership society is just one example of that pressure. By my lights, we have moved from the age of enlightenment – remember John Locke, Jean-Jacques Rousseau and, of course, Adam Smith comes to mind. He has been in the backdrop of the conversation all day today, with notions of self-reliance and enlightened self-interest.

We've now entered the age of entitlement. Surely most of us realize that that's where we are. This can be seen in any number of ways manifested in society today. We have the juxtaposition of entitlement mentality and increasing movement toward self-reliance. To me, one fundamental question relates to one strange outcome of that movement, the free market move away from pooling of risk. As an actuary and businessman, I'm startled that this notion could be considered sensible, either practically or philosophically. Why would we turn away from the fundamental concept of risk pooling? Why would we move toward something that we already learned has too much risk in it for individuals? As Americans, we all understand the love of, and respect for, self-reliance -- it is at our core. However, the practical implications of moving away from risk sharing, strikes me as sacrificing a well proven mechanism on the altar of a point of view. Who could possible believe that we should return to the days before about compulsory automobile liability insurance or workers compensation systems, to name just two examples. I'm concerned that we might be moving in reverse and undoing progress.

Let's look at population trends. The birth rate has declined. Life expectancy has been extended. Sixty is the new 40. Many of us are counting on that observation to be true. (Laughter.) Whether it’s in the rearview mirror or looking forward , longer periods of productivity are available to us as a society. In some ways, we’re being saved, in a sense, from some of these trends by immigration. The history of this country, the one country in the world where immigration has made it what it is, is continuing to be affected by immigration in a multitude of ways. Don't lose sight of the fact that part of the salvation for Social Security is immigration, both as a result of a growing population and their generally higher birth rate. Also in the hopper for consideration is education, which has become quite costly, and has never been more important than it is now. My personal view, supported by much evidence, is that the quality of education has declined. That again, worries me as a citizen.



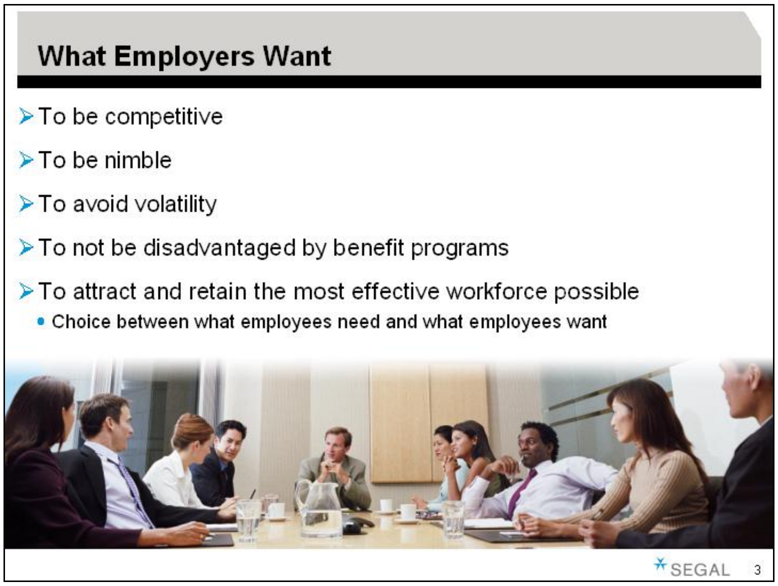
What about the business environment? Very intense competitive pressure and ever increasingly global pressure and that’s a profound reality. We can’t gainsay what companies are going through every day in an unforgiving marketplace. Make an error in a product, make an error in a promotion, make an error in an acquisition, don’t provide information to Wall Street which will help them understand what you’re doing, you’re in big immediate trouble. There’s intense media and investment analyst scrutiny – intense. Everybody’s trying to fill up the 24 hours and it’s immediate. It’s short term. And I would again observe that that kind of short-term view in the long-term is damaging. Shareholders are also increasingly unforgiving.

By the way, that includes some major pension funds. There’s a touch of irony in there – the point that Ron made about the investments of the insurance pension funds in the equity of American companies, means that sometimes these funds are on both sides. They properly expect a good return, but and oftentimes, companies' solution is to lay people off, which is the opposite of what the labor movement would like to see. So that is a bit of a dilemma.

The intense war for talent is one of the most significant battles we're facing. As the baby boomer generation goes off into retirement – by the way, I think that baby boomer generation is a misnomer because the people born in 1946 and the people born in 1964 don't have much in common. There's a huge difference between these cohorts. It's really three generations. But, using the construct of the baby boomer generation, talent is leaving the workforce too quickly. Employers are learning more and more that there's a dearth of competent talent – a difficult and, sometimes, an intractable problem. And that, as I said, will be an increasing challenge, exacerbated by the educational issue as well.

We have an accelerating rate of change throughout our society and, indeed, the world. Technology is perhaps the best example. For those of you who remember basic calculus, I observe that it's no longer the rate of change, but the rate of change of the rate of change. Where we are now is in a cycle, which I think is irreversible, of ever-increasing rates of change, which means we all have to be nimble: companies, citizens, the society. We have a continuing process of regulatory and accounting impositions and change.

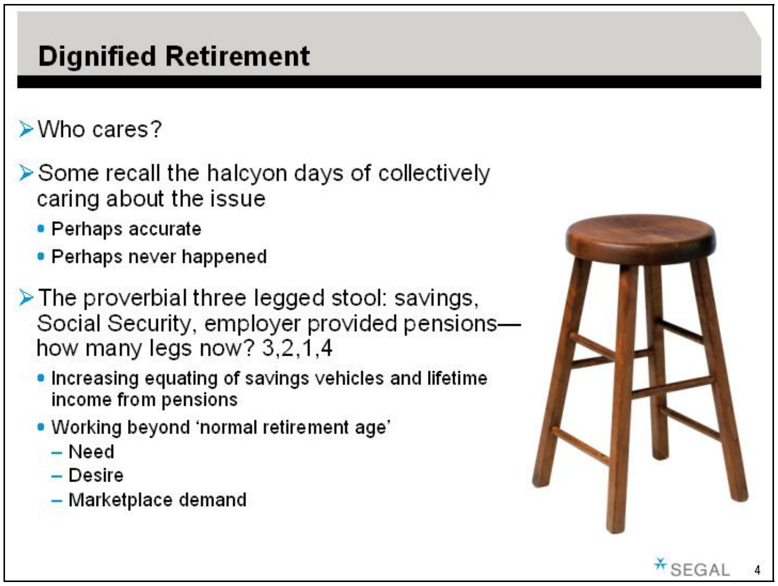
It's interesting considering what building we're in, that there was an article in the Wall Street Journal this week on page A4, by the way, which announced the quick recovery of the health of private pensions. It is in sharp contrast with what we were reading over the last five years about the "death" of defined benefit pension plans. Therefore, I again wonder about this subject, which needs a long-term view but is too often examined myopically. The volatility of expense and disclosure under pension accounting rules over the last number of years has been high level of volatility, a significant problem for plan sponsors. They don't want to be disadvantaged by benefit programs.



Now, we sometimes hear the notion that companies have put in pension plans for, quote, "the wrong reasons." As somebody who's actually dealt with companies making the decisions for the last 35-plus years, that is not typically the case at all. Most often, historically, companies have seen pension plans as a reasonable component of rewarding employees. I would describe the view of some critics as "the conspiracy theory of pension plans", and my experience is that most companies have pension plans because they need it in a competitive world and they see it as tax advantageous.

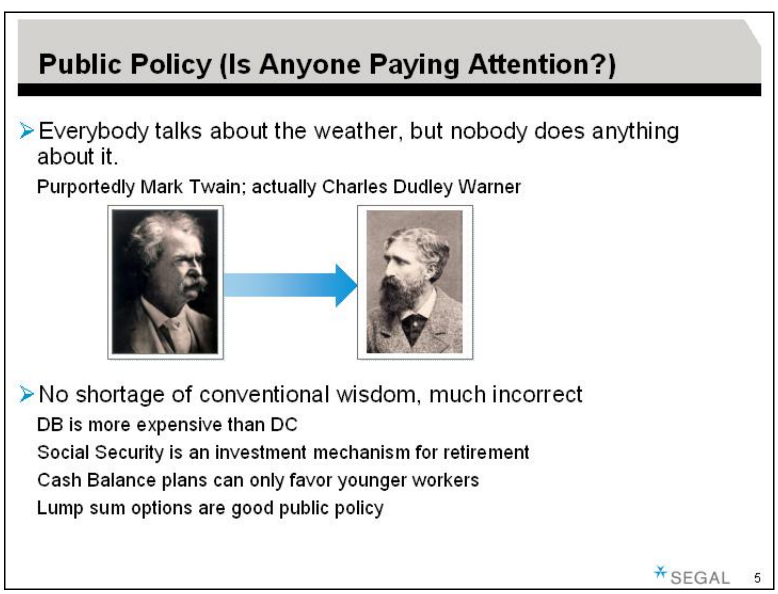
It's interesting also that tax incentives were used to motivate companies to install pension plans to relieve the pressure on Social Security, and then once they did, 20 years later or 30 years later, then we heard the opinion that companies have taken these tax deductions in deferring the taxation on employees? Well, the answer is "we've got the tax incentive, which was provided through an application of public policy, and we did it." Now, the question is why did we do it? We did it because that was consistent with public policy at the time, and certainly employers are increasingly driven to attract or retain the most effective workforce possible. It's interesting that there is some disconnect between what employees need and want, and employees' understanding of the value of what they want and what they need.

For example, in a study that we saw on the rewards of work, the most benefit people value the most is time off, and given the choice between an extra week's vacation or a $50,000 lump sum retirement benefit, the majority of people – 75 percent – say, "I'll take the week off."

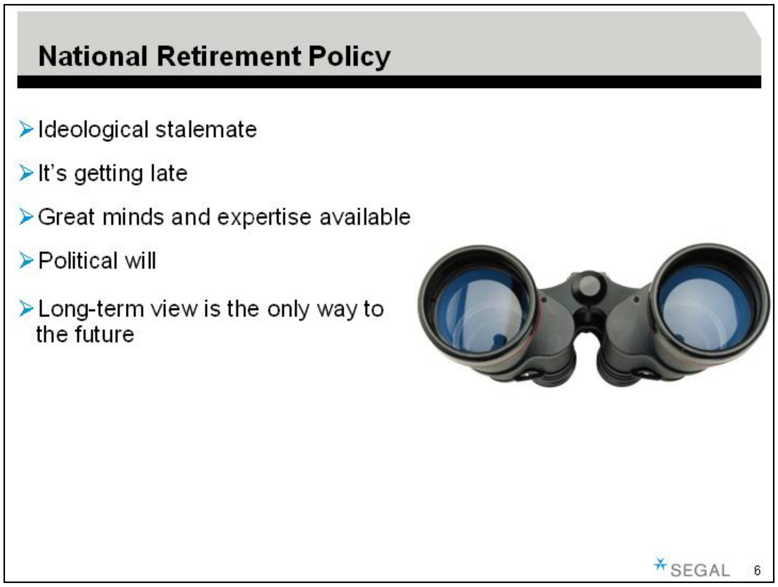


Now, what about dignified retirement? First of all, who cares? Well, obviously the people in this room care. The fundamental question is who else cares? Some recall those halcyon days of collectively caring about the issue and I would say maybe that's accurate, maybe it never happened. But some of us have persist in the memory that that's the way it was.

Consider the proverbial three legged stool, which now has four legs. Note that at least two of them are wobbly, and the question is of course what's the fourth leg? Well, the fourth leg is working beyond normal retirement, which is increasingly common. People are going back to work for a whole variety of reasons: need, desire, marketplace demand because of the shortage of talent, and this confusion between savings vehicles and lifetime income from pensions is a very dangerous notion.



So what about the weather? Well, the issue about the weather is that everybody talks about it, but nobody does anything about it. (Laughter.) So my view is when I was thinking about this whole discussion, public policy – I love coming to these meetings, I love participating in public policy – and my concern is who's listening? There's no shortage of conventional wisdom, but my current view of conventional wisdom is that conventional wisdom is often wrong. DB is more expensive than DC? Interesting theory; not true. Social Security as investment mechanism? Not really. Cash balance plans can only favor younger employees? Not true. Lump sum options are good public policy? No.



Repeating conventional wisdom doesn't make it correct – (laughter) – because if it did, it would be correct by now. (Laughter.) So what do we have? We clearly have an ideological stalemate. What we have is polemics and rhetoric --- as I heard today, too many are talking past each other. It's getting to be too late, not just for me, but for us.

We have great minds and expertise available. That was obvious today and it's always obvious at NASI. We need real political will. We need a long-term view. It's the only way to get to the future.

Thank you. (Applause.)

Discussion

MS. JEFFERSON: Well, we will now open the floor for questions. We have a brief amount of time, so if you would keep your questions brief that would be helpful and please remember to identify yourselves in the mike, your name as well as the organization you're representing.

Yes?

Q: I am Anna Rappaport and I am also an actuary like Howard Fluhr. I have two comments and I'll be interested to hear from the panel about them. Howard Fluhr indicated that people are working after retirement. We heard a little today to remind us that people are living a lot longer and to define how much money they need. One of the solutions that we need to recognize is that people are retiring differently, and often need to work longer. If people retire later, then less retirement funds are required for an adequate benefit. I'd like to hear from people about that. What do the panelists think about the potential for later retirement?

And second, I'd like to hear from the panel about how the public will cope with increased responsibility. We have access to an increasing amount of research about the gaps in personal retirement knowledge and action. In our discussion today, we have not developed the scenario of what will happen if we make people much more responsible for themselves, Today's adults know what they know and we can't turn the clock back and send back to elementary school and reeducate them so that they will know more. Many people aren't really capable of getting a good result on their own; they don't have the knowledge and will. I'm wondering if people have comments about how to make the retirement system work in light of the gaps in knowledge? So I'm interested in retirement ages and dealing with public knowledge gaps.

MS. JEFFERSON: Okay, thank you.

MR. SALISBURY: On the second, which is how you do it, I think that it was put in the terms of the Pension Protection Act; in the terms that David John put forth, you basically to force people to do everything. You need to default them and then hope they pay no attention and that they go with the defaults because if they pay no attention and go with the defaults, they will save, they'll be diversified in their investments and they'll take annuity income. And if you think about the PPA debate, that seems to be the conclusion of the private sector, the financial services companies, the consultants as well as public policymakers; I don't know if they're right, but that seems to be the consensus. They're working longer from our studies and Anna's studies that you've been part of is there is some of that taking place the 1977 verse 2004 data that I showed shows that. In 2004, we were at the point where 6 percent of those over the age of 80 were still having earned income, not that that lays a lot of glass still to full, but it leaves inspiration for me, I'll be working at 85. (Laughter.)

And I think it's more an issue of getting people to want to do that. When you look at the percentage of people that take early Social Security at age 62, that's what I find to be the scariest given that ages are going up and that 40 percent reduction they'll be taking from the full benefit by the time the age gets to 67, you have about half who are still doing it. The financial planning community generally these days still tells everybody to do it. They argue that a dollar in your hand is better than 140 percent of it that you may not get five years from now. Wait a minute. So I mean, no, there is – I think that there's a whole lot of cultural change on the work issue that has to take place.

MR BLACKWELL??: I think there's something almost overwhelming about the idea that a significant and increasingly important asset in retirement is the ability to work. (Laughter.) I mean, retirement is supposed to be the right to at some point in your working life stop, and still have a dignified life. And I think if we had – to your first question – if we had a rational discussion in this society about how we wanted to allocate the enormous gift of the fact that we are living longer between providing for a meaningful working life and a secure retirement, instead of starting the reflection on public budgets and what we can afford, we might get a long way further in finding the right way of retirement security.

It's not just a matter of ideology; it's a matter of real interest. This system and the evolution of this system works very well for some people. Our CEOs are doing very well in their retirement packages, thank you very much. But the fact that we're starting by saying we're getting older and we clearly the public budgets won't allow us to make the social choice to allow a secure retirement means that the least privileged work members of our society are going to be denied the right to a secure retirement while the wealthiest families do very well themselves.

MR. FLUHR??: Just one other point, speaking of the enlightenment I guess that utilitarians are great believers in education and so am I, but I think that if you consider the education we've provided and you look at the country and look at credit card debt, obesity, smoking, lots of other things, I think we have to keep educating, but we also have to be realistic that we do need some compulsory steps, some mandatory steps to make sure that overall society is secure and people are taken care of. I don't mean that we should not expect people to be self-reliant, but I think it's a little delusional to expect that everyone can figure out what to do and has the will and the ability to do it.

MS. ALTMAN: With respect to raising the retirement age, I think we have to think very hard and separately about Social Security and private pensions. Social Security, as I think most people know, provides really a band of retirement ages -- there are actuarially equivalent reductions and increases for every age -- so from the system's perspective, the age someone chooses to retire does not save or cost money. From Social Security's perspective, all that you're doing by raising the retirement age is cutting benefits across the board for retirees. So I think you have to be clear that's what's going on; you're not encouraging anyone to work any longer.

With respect to private pensions, there have historically been subsidized early retirement benefits. There, it does make a difference, and those of course are voluntary arrangements that businesses from their own business perspective up until now have seen it worthwhile to try to ease people out in an era when you can't fire them because there's no age discrimination. Well, there is, but there are statutes on the books prohibiting age discrimination. There, my guess is, the market will work its way out and that those private plan provisions will start changing. But I think it's misleading to argue that people should be permitted to work longer, and then reduce their benefits so that they are forced to work longer. If you're trying to provide work incentives to older Americans, I think there are other and better ways to do it, outside of Social Security.

Now, with respect to education, I think that also is extremely important, although the way I would focus education is to educate younger Americans about the future of Social Security. It's staggering to me how many people under age 30 think the program will be completely gone; it's not going to be there for them, they'll get zero benefits out of it. And of course, they've been hearing a drumbeat this way. I think a lot of education has to go on about that so that there's an honest public debate about the program and not simply: "Well, gee, would you like to have nothing or would you like to have a private account?" When phrased in that misleading way, it becomes an easy question.

MR. JOHN: Well, I'm going to just comment briefly on the retirement age issue. If you look at Dallas here, if he works till 85, then he faces 22 years of retirement if you assume that he lives till he's 107, as the weekly chart seem to indicate. The fact is that we as a people are living longer on average. There is also evidence that one of the reasons that many people retire at 62 is that 62 is the earliest age that they can get Social Security. Now, a logical way to change that is to change the age, move the retirement age for full benefits perhaps up to 70, and over time move the early benefits age up to somewhere like 65. If we do that, though, we've got to remember that not everyone lives the average. As Dallas points out, there are going to be a certain number of people and in particular those people who have physically demanding jobs, who will not be able to work that long. We've got to accept the fact that those workers will have to go on disability, and we need to have a disability program that's ready to accommodate them.

MS. JEFFERSON: Yes?

Q: Yeah. Emily Kessler, also an actuary, so you get three in a row so – (laughter) – you'll live. I want to make a couple of comments. First of all, when we're thinking about the roles of various players in the system, I think we need to understand that there are possibilities for the role the employer can play in the system beyond defined benefit and defined contribution. Those are simply two things that are enshrined in our tax code. And there's lots of ways that employers can play a role in the system in helping to ensure retirement security to, for example, encouraging pooling mechanisms that are different than what we can do today simply because they are not allowed.

The reason I would encourage us to think about this is, you know, David kind of started to steal my thunder a little bit, but we're going to have a situation where knowledge workers like all of us are going to stay in the workforce longer. There are not a lot of reasons we shouldn't work longer, although I'm not going to be at my desk at 85 like Dallas is, but that there's no reason why we can't continue to work much beyond where we are working today. But, there are a lot of people who do more physical jobs or jobs that may just not be as interesting who are going to want to and need to retire earlier.

So for example, you could set up employer programs to allow them to retire with dignity at earlier ages that might do more bridging to Social Security. You know, these are concepts that we don't have right now in our existing tax code because our tax code was set up in a certain way. You know, there's a huge role of social insurance—I'm a firm believer in it—but I don't think it's the sole provider of retirement income. We need to think about all the pieces together as we're reimagining these and as we're taking into account the new realities that Howard described with companies and with the global economy and changing demographics and living longer. To rethink the package of how we think about the role of social insurance; all we think about are employer pensions and individual savings and there are many more new and different and creative ways to do that because I think there are all sorts of possibilities out there that we haven't even begun to dream of.

MS. JEFFERSON: Okay, thank you.

Q: Martha Patterson. I'm a lawyer, not an actuary, which is I guess even worse. (Laughter.) Thank you, Dallas, thank you. My question is this: throughout the day we have had a lot of discussion obviously on Social Security. Almost no mention about the benefit for surviving children, which I think is incredible and in the good old days, we could get it through college if we stayed in school. Most people don't know about that. Would we have more support, given that we have generally two working age parents, if we gave more publicity to the fact that Social Security offers a survival benefit for children?

MR. BLACKWELL??: I think this is absolutely – this is very important I would think. The only reason I got a college education is because of the survivor's benefit and millions of Americans did. It sounds like you had the same experience.

Q: Yeah, I did.

MR.BLACKWELL?? : And I think it's one of the compelling – one of the reasons why you can't represent this three-legged stool, I don't do the same things, and social protection is well beyond the issue of retirement income, including survivor benefits.

Q: So how does this escape the debate?

MS. ALTMAN: Well, I want to second all of this that I think when we talked about education that is an important piece of the education that has to go on. It's interesting that the survivor benefits came in in 1939, but they've never really been well understood. I've talked about it in writing the children of victims of 9/11 who were all getting survivor benefit protection, but our government has not publicized it very much. It seems to me that when you're educating younger workers, part of what you want to talk about is not just this very distant future when they may get retirement income, but if the chances they may become disabled and the chances that they may leave children.

Q: I do, and they really don't believe me. There are all surprised. (Laughter.)

Q: Larry Mishel, EPI. I just want to engage Dallas about the data because you thought we were showing different things. I think, in fact, we're showing the same things. So let me just go over. I was showing that employer-provided coverage for healthcare and pension has eroded substantially since 1979. You show that a lot of people who are in old age now have more pension benefits than those people who were old age in 1974 or '75 or '77.

The people in the earlier age, they were workers primarily 20 years earlier than that at the beginning of the build-up of the pension system. The ones you're talking about now are primarily beneficiaries of where the retirement system was in the early '80s and what I was talking about is job quality. What's the situation of someone who's 45 now, similar you know and where are they going to have 25 years when they retire? And I don't think there's any reason to believe that the private pension system is not going to be much worse for those people who were working age now 45 and those people who retired over the last ten, 15 years. Would you disagree with that? By the way, I'd say all kind data I used I could find on your website. (Laughter.)

MR. SALISBURY: Well, the new high school people I found a little bit strange because of the difference in how many people go to college versus high school and some of the issues that are just averaging. Those are knicks and knacks. I was more focusing job turnover. I've always put job turnover it in a historical context; ten jobs in a lifetime is not a new thing. I've been in my current job for 28 years; it's my tenth full-time job. Turnover median job tenure this year is about four years on median for the total labor force. It was about four years in 1952.

I think there's a huge amount of conventional wisdom that we deal with that is just flat out wrong. What is right is that high-income individuals that have been lucky enough to work for very large institutions in the United States don't have the same benefits that they had sometime ago because those large institutions stopped growing and started declining: General Motors, IBM, et cetera. The list is long, and if one looks at the defined contribution system relative to the defined benefits system and one looks at median and average benefits being paid out of defined benefit pension plans, defined contribution plans at median and average will produce just as much income as the defined benefit system did. They might even produce more over time for probably more Americans, but the fact is the defined benefit system wasn't producing for most people adequate income and the defined contribution system will provide income for more people, but it still won't be adequate, and then we look at the defined benefit system and one of the things that ERISA did is that it basically moved us to lump sum distributions out of defined benefit plans.

I cry for the end of defined benefit plans that are mandatory annuity payment. I find the end of defined benefit plans that pay everybody a lump sum distribution is they walk out the door and a retirement sort of why is that any – why is that a problem, but a defined contribution plan is not a problem – I mean, is a bigger problem. It's not about defined benefit, defined contribution to me, it's about annuity or lump sum distribution, the point that David made. The entire system's been shifting. There are now major public employee pension systems contemplating moves of their DB systems to lump sum distributions, that immediately per Howard's and other points move you away from the pooling and the life expectancy pooling and eradicates the efficiency of the system. Most actuarial studies would say if you're going to do it on a self-reliant basis, you need 34 percent more savings on average than if you do it on a pool of annuity basis. Thirty-four percent is a lot of money across the society.

So it's my emphasis at point more is that the decline of defined benefit plans is I find something that a whole lot too much crying is put out on about even though I'd love to have my dad's annuity, $172 a month, started at that in '78, still that today, gets a second one at $610 a month. That actually puts him at the 66 percentile in terms of the size of his defined benefit annuity of today's retirees, and on top of Social Security that's meaningful income, but on top of security it's not adequacy. He got a lump sum from a profit-sharing plan at the age of 65. It was enough money that if he annuitized it would have bought a bigger annuity than the defined benefit plans the two combined. He'd spent the entire lump sum distribution by the time he hits 75 because that's when he thought he'd be dead.

So it's more a point of emphasis that the shifting of the system, I don't find as troubling given what was already happening to defined benefit plans and to spend our time focusing on DB/DC and those arguments, I think, we've wasted years arguing about that in terms of instead focusing on what personally I view as the fundamental issue, which David and others noted. It's the deannuitization and pooling in order to get the greatest amount of good for the given number of dollars in retirement income adequacy and how you decide to fund it, that's one issue. How you decide to do the investments, that's a second issue. The really critical issue to me is the flow out the door, and against that issue defined benefit retirement plans and defined contribution plans are a more significant contributor to the workers of America today than at any time in the post-World War II period on an asset basis, on a percentage of compensation being accumulated, and on their potential to deliver retirement income if we actually are committed to its being retirement income instead of capital accumulation.

There is still time to change the public policies to make that happen. And I'm just saying we should – you know, I had an argument with somebody that's in this room now 25 years ago. I argued we should deal with preservation and they argued we should deal with vesting. I would argue the fact that public policy kept reducing vesting standards and DB plans before it dealt with preservation is a whole lot of the reason we have problems today, but that's what pension advocates wanted.

So I just think it's not as much a disagreement; I think it's more the emphasis point on is the loss of lump sum paying defined benefit plans a crisis? And I'd say no way near as much of a crisis as the loss of annuity-paying DB plans, which is a minority of the system. Those are the ones that are surviving in the organized labor movement today is the annuity-only plans.

MS. JEFFERSON: I think we have time –

MR. BLACKWELL??: So I'm not going to dive in there except to note my severe disagreement with your view, and secondly to regret this language that defined benefits are simply disappearing. They are being taken away as employers walk away from their obligations to the system that we have built over half a century. This is not something that's just happening to us, it is not inevitable. It will be a social choice whether employers are allowed to do this or not.

MS. JEFFERSON: We have time for one more –

Q: Quick question for David. Why and what would you do about the millions of people who work for employers of under ten?

MR. JOHN: Well, politics is the art of the possible, and the easiest change to achieve would be the current target group for auto-IRAs or something similar to that; we don't have a whole lot of pride of authorship here. But the fact is if you have 71 million people at the moment who work in companies that have no retirement plan, of those, 40 million work for companies with more than ten employees. If you focus on that group of employers first, you're much more likely to include employers that automate their payroll systems and would be able to implement something like Auto IRA much faster than smaller companies that may still do payroll by hand.

Would I like to extend that over time on down to everyone? Sure, I would, but first, you do what is possible and then you get to the ideal.

MS. JEFFERSON: Well, I think that's all the time we have. Please join me in thanking our panel for such a wonderful and stimulating conversation. (Applause.)

At this time, we would ask you to move to the Holeman Lounge for a reception and the 2007 Heinz Dissertation Award, so that the staff can prepare this room for dinner. Thank you again.

(END)