



US Retirement Benefits, Retirement Income Adequacy, and Research Objectives

City of Los Angeles Deferred Compensation Plan

October 16, 2018

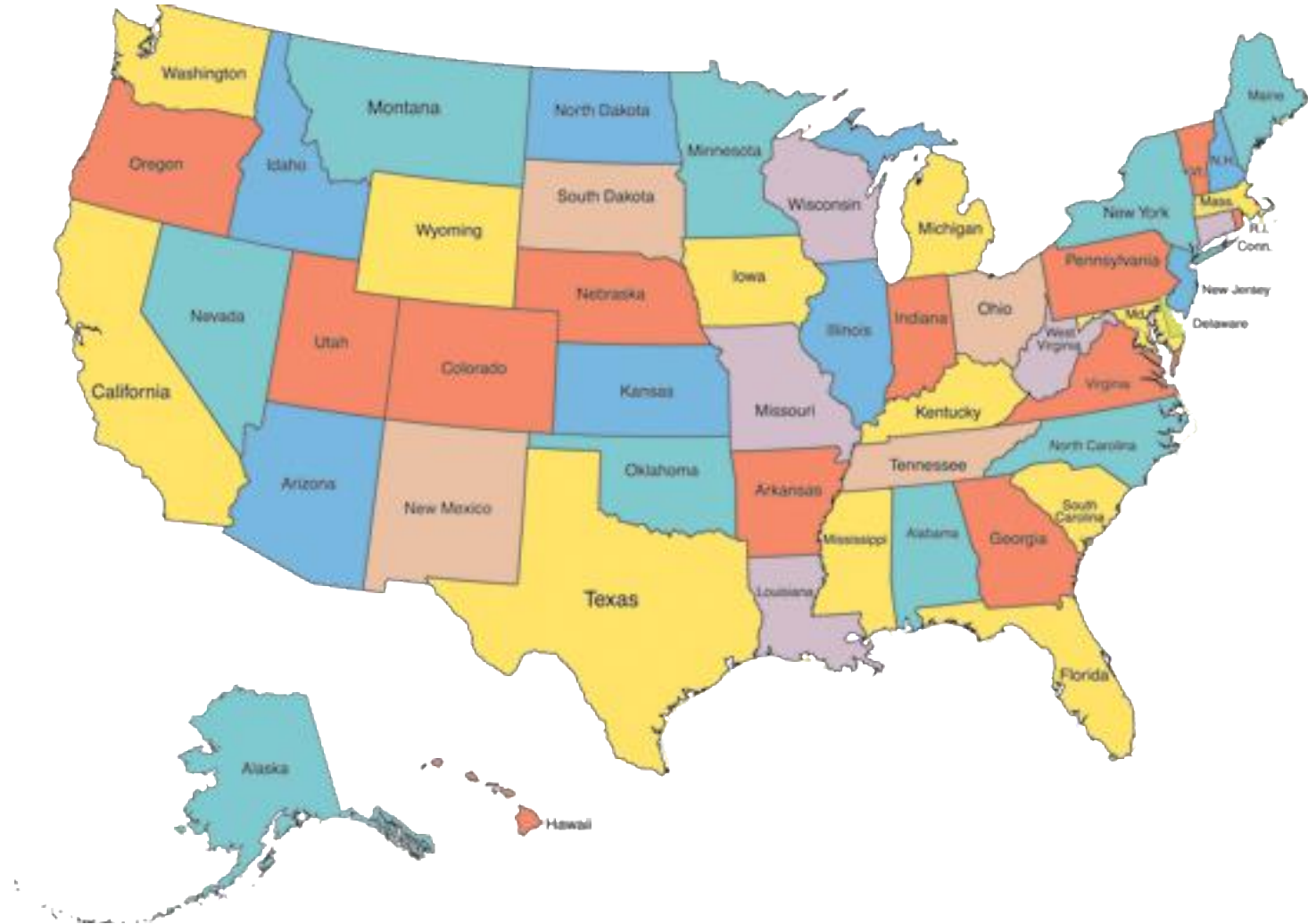
Wendy Carter
Public Sector DC Plan Director

 **Segal Consulting**

Today's Agenda

- **Provide overview of US retirement benefit landscape**
- **Explore retirement income adequacy trends/insights**
- **Discuss next steps for LA DCP to build on its success**

National Retirement Benefits Overview



Sources of Retirement Income

Traditional Components of Retirement Income

Government Provided Benefits

- Social Security retirement benefits



Employer Provided/ Sponsored Benefits

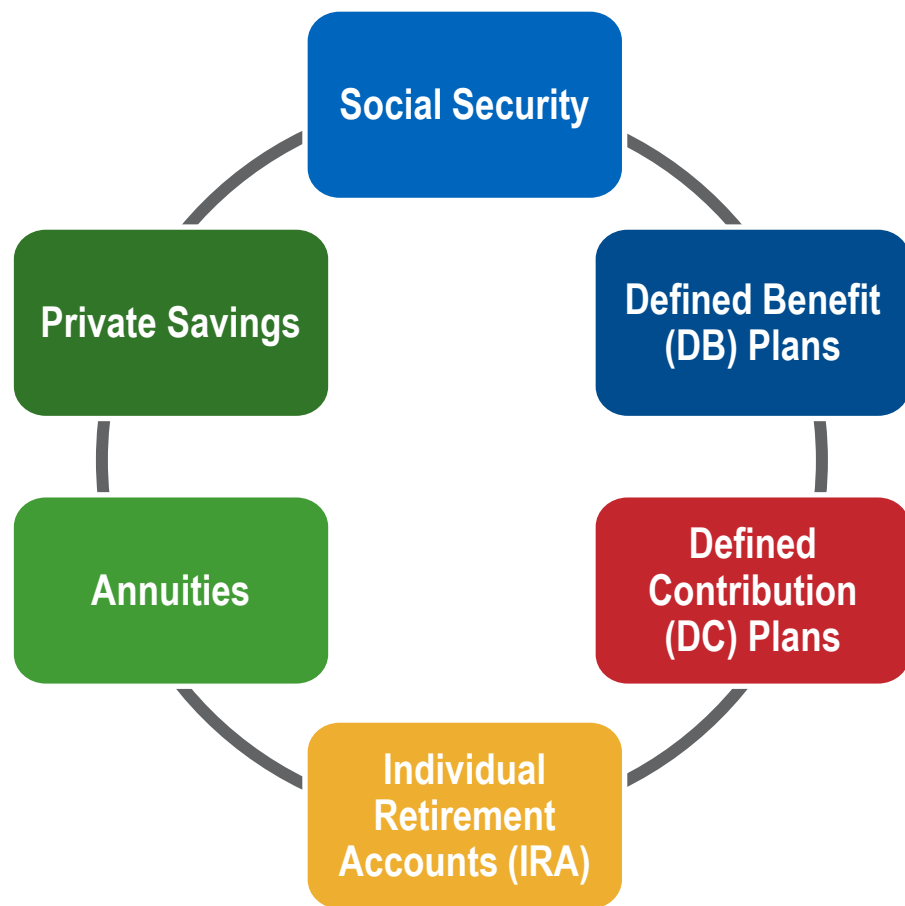
- Defined benefit plans
- Defined contribution plans

Personal Savings

- Voluntary savings (taxable savings, annuities, etc.)

U.S. Workers

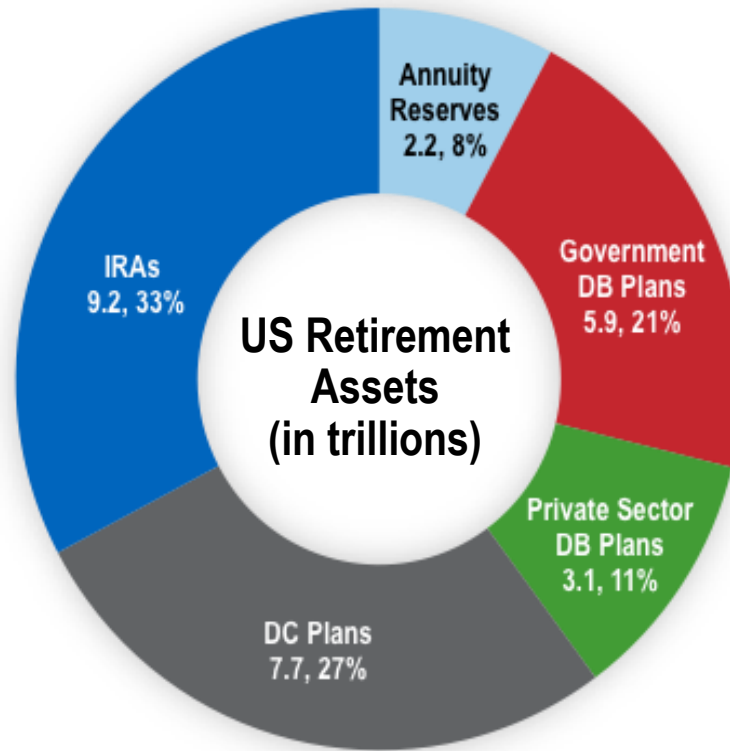
Sources of Retirement Income



- **Social Security:** Federal retirement savings plan based on years of contributions/age
- **Defined Benefit (DB):** Retirement plans based on age/service factors
- **Defined Contribution (DC):** Retirement plans based on contributions only
- **Individual Retirement Accounts (IRAs):** Individual tax-advantaged retirement plans
- **Annuities:** Individual partially tax-advantaged savings/income plans with insurance companies
- **Private Savings:** Private savings with no special tax treatment/advantage

U.S. Workers Current Retirement Assets*

Total: \$28.0 Trillion in First Quarter 2018

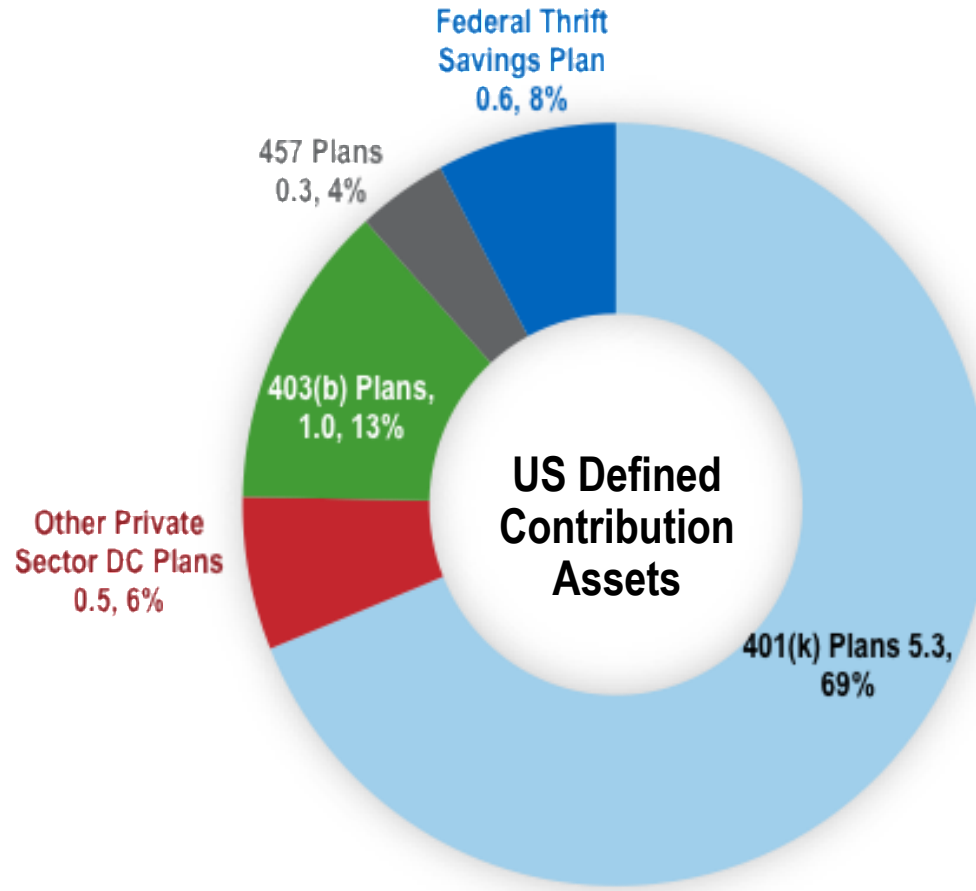


* Source: Investment Company Institute – Retirement Assets First Quarter 2018

U.S. Workers

Defined Contribution Assets

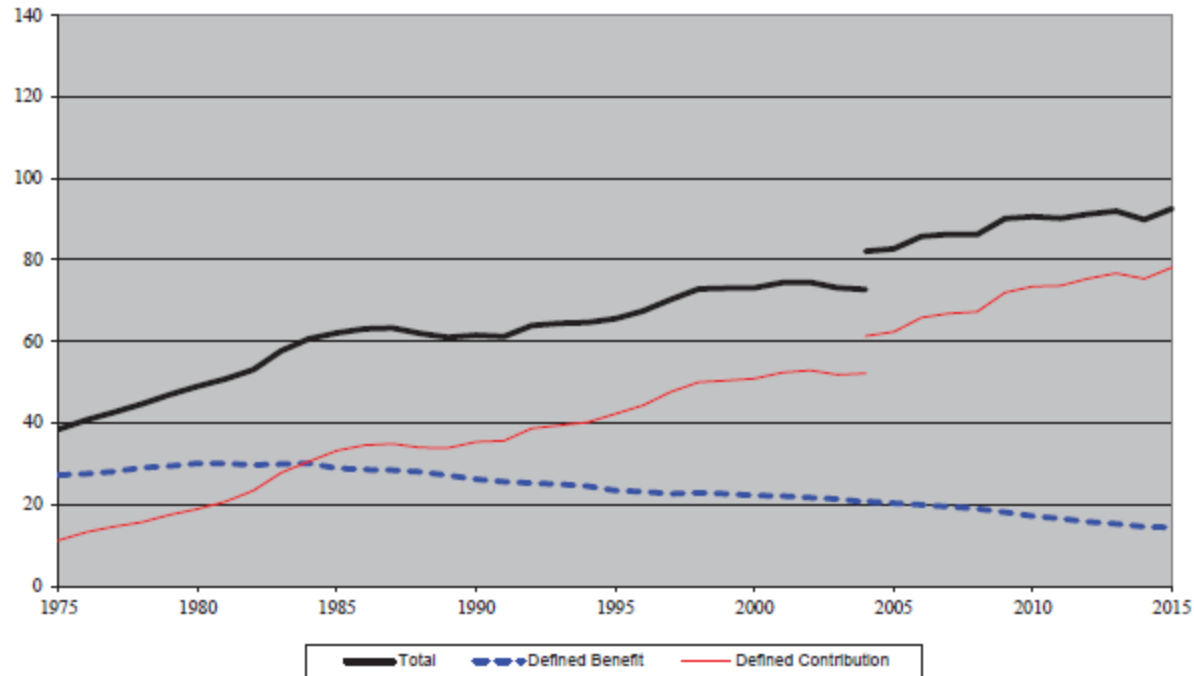
Total: \$7.7 Trillion in First Quarter 2018



* Source: Investment Company Institute – Retirement Assets First Quarter 2018

DB & DC Plan Trends

Graph E7g. Number of Active Participants in Pension Plans
by type of plan, 1975-2015
(numbers in millions)



NOTE: The methods used to develop the statistics in this report have changed over time. These changes are outlined in Appendices B through H.

NOTE: Since 2005, active participants include any workers currently in employment covered by a plan and who are earning or retaining credited service under a plan. This category includes any nonvested former employees who have not yet incurred a break in service. Active participants also include individuals who are eligible to elect to have the employer make payments to a Code section 401(k) plan. For 2004 and earlier, active participants were adjusted to exclude individuals who were not contributing to the retirement plan and not entitled to receive benefits.

NOTE: Between 2009 and 2013, all participants reported on the Form 5500-SF were assumed to be active. Since 2014, active participants are separately reported on the Form 5500-SF.

NOTE: Excludes "one-participant plans."

SOURCE: Form 5500 filings with the U.S. Department of Labor.

DB & DC Participation

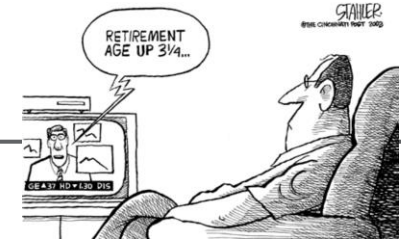


Table 2. Retirement benefits: Access, participation, and take-up rates,¹ civilian workers,² March 2018—continued

(All workers = 100 percent)

Characteristics	All retirement benefits ³			Defined benefit			Defined contribution		
	Access	Participation	Take-up rate	Access	Participation	Take-up rate	Access	Participation	Take-up rate
1 to 99 workers	55	40	73	12	10	86	50	34	68
1 to 49 workers	50	36	72	9	8	86	47	32	69
50 to 99 workers	69	51	74	20	18	87	58	38	66
100 workers or more	86	71	82	41	33	82	70	51	72
100 to 499 workers	84	64	77	28	23	82	71	49	70
500 workers or more	90	78	87	56	46	82	70	53	75
Geographic areas									
Northeast	72	59	82	31	27	86	59	44	74
New England	74	60	81	30	26	86	60	46	77
Middle Atlantic	71	59	83	31	27	86	58	43	73
South	70	52	74	26	21	82	61	40	66
South Atlantic	70	53	76	27	22	79	62	41	66
East South Central	74	53	71	26	22	84	64	40	63
West South Central	70	52	74	24	21	86	56	38	67
Midwest	72	57	79	25	21	82	63	46	72
East North Central	72	58	80	25	21	82	64	47	73
West North Central	73	56	77	26	21	82	61	43	71
West	69	55	80	25	20	83	57	42	74
Mountain	74	60	81	21	18	85	63	48	77
Pacific	67	53	79	26	22	83	55	39	72

¹ The take-up rate is an estimate of the percentage of workers with access to a plan who participate in the plan, rounded for presentation.

² Includes workers in private industry and state and local government. See Technical Note for further explanation.

³ Includes defined benefit pension plans and defined contribution retirement plans. Workers are considered as having access or as participating if they have access to or are participating in at least one of these plan types.

⁴ Surveyed occupations are classified into wage categories based on the average wage for the occupation, which may include workers with earnings both above and below the threshold. The categories were formed using percentile estimates generated using wage data for March 2018.

Note: For definitions of major plans, key provisions, and related terms, see the "Glossary of Employee Benefit Terms" at www.bls.gov/nics/ebs/national-compensation-survey-glossary-of-employee-benefit-terms.htm.

Source: U.S. Bureau of Labor Statistics, National Compensation Survey.

Retirement Income Adequacy



Retirement Plan Coverage

Defining characteristic of public sector employment is retirement plan coverage:

➤ **Nationally¹**

- 99% of full-time state and local government employees have access to an employment-based retirement plan
- 92% have access to a DB plan

➤ **In California²**

- 83% of federal, state and local government workers have a pension or retirement plan
- 89% of workers participate in the plan

➤ **In LA City**

- 100% of full-time employees participate in DB plans
- 75% of full-time employees participate in LA 457 plan
- ___% of half-time employees participate in LA 457 plan

➤ However, access to a DB and/or DC retirement plan does not guarantee retirement income adequacy

¹ Source: National Compensation Survey: Employee Benefits in the US, March 2013, BLS, US DOL, Bulletin 2776 (9/2013)

² Source: Analysis of Current Population Survey, March 2012 Supplement

Why Is Retirement Income Adequacy Important?

➤ Working longer

- Working past retirement age not uncommon:
 - According to AARP, 22% continue to work earning median of \$25,000
 - Proportion of income retirees earn by working has doubled from 15% in 1990 to 30% in 2012
 - Working past expected retirement age is trending up:
 - 40% of workers expect to retire later with >1/3 past age 70 or never
 - Technology makes it easier to work
 - Fear of running out of money during retirement

➤ Costs associated with workers deferring retirement:

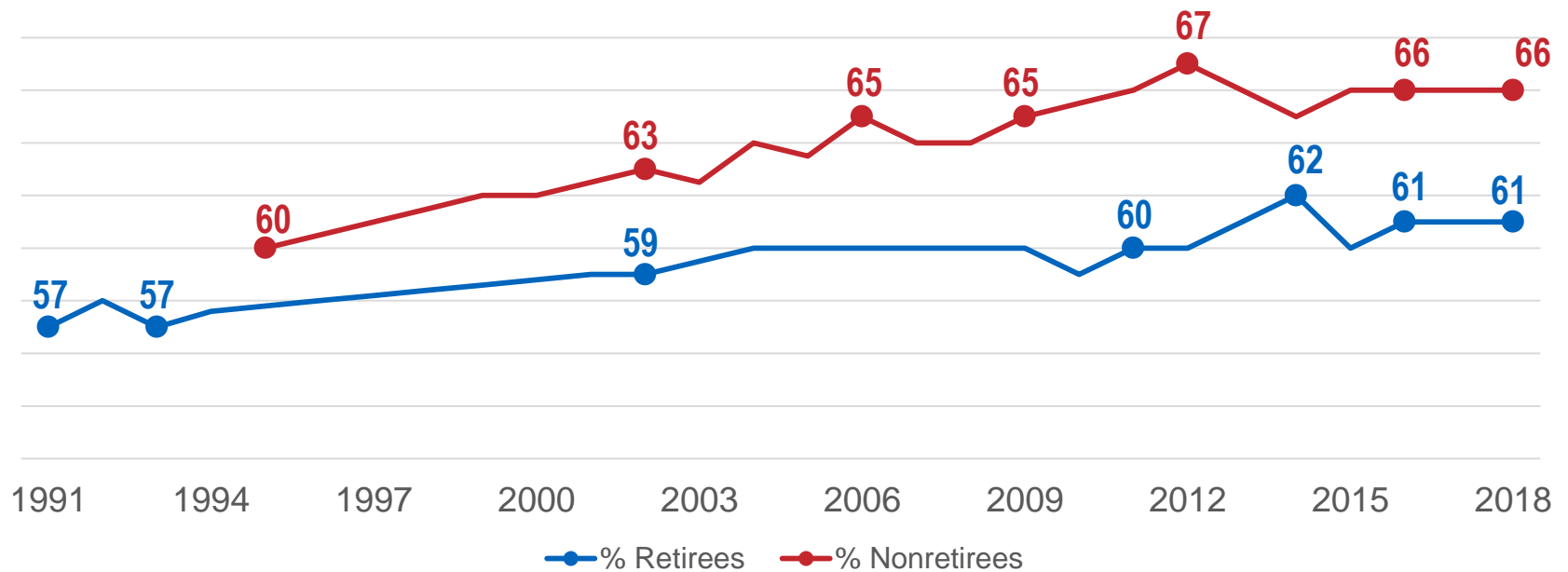
- Employers paying for more workers on the top end of wage scale
- Fewer opportunities for younger workers = higher turnover and succession planning challenges
- Impact on health plan costs
- Impact on employee morale



Expected vs Actual Retirement

Average expected retirement age among non-retirees

Average actual retirement age among retirees



Expected vs Actual Retirement

- The percent of state and local government workers who have changed their expected retirement age
 - 17% for general employees
 - 20% for teachers
 - 18% for public safety employees
- 81% **increased** their retirement age for these reasons

Table 2: Reasons for an Increase in Expected Retirement Age Among State and Local Government Employees, 2016

Can't afford to retire when originally expected	38%
Cost of living is higher than expected	32
Healthcare costs	26
Personal finance challenges	18
Retirement age changed for Social Security or retirement plan	15
Need to support family members	13
Expect Social Security benefits to be reduced	13
Employment situation has changed	9

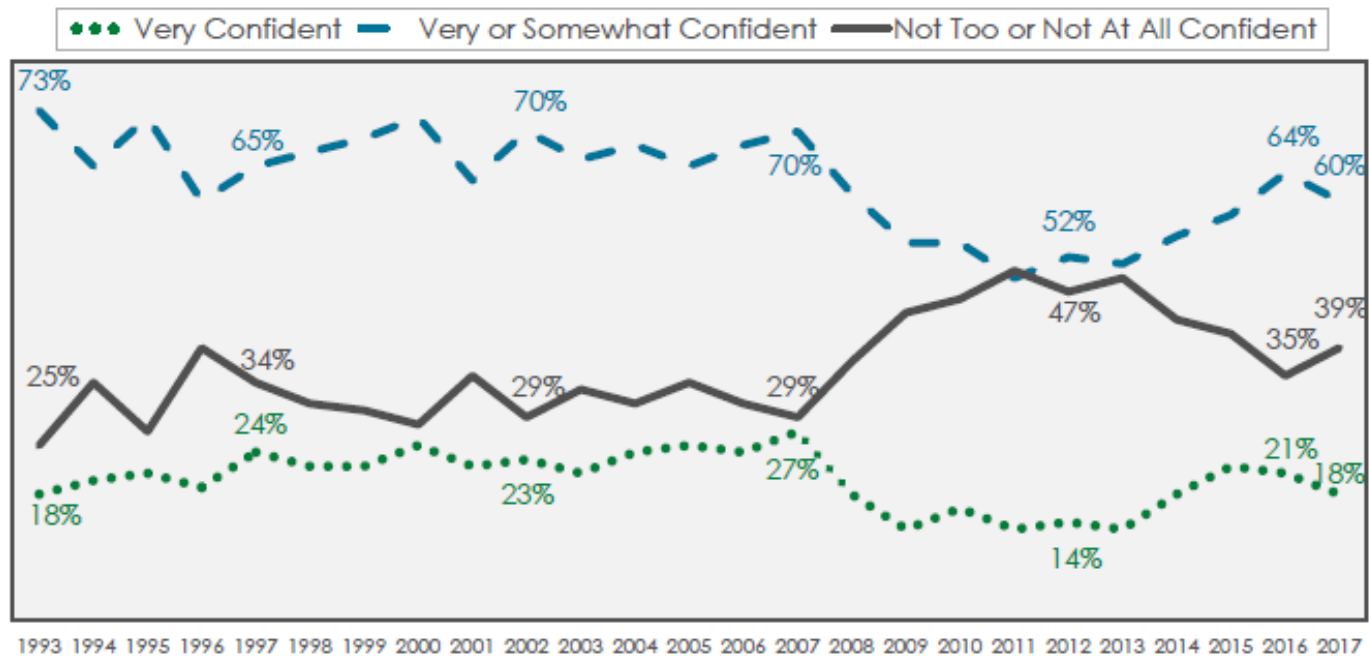
Source: *Retirement Confidence Survey of the State and Local Government Workforce (2016)*, TIAA Institute and the Center for State and Local Government Excellence.

¹ 2016 Retirement Confidence Survey of the State and Local Government Workforce, November 2016; TIAA-CREF/Center for State & Local Government Excellence

Worker Savings Confidence

Figure 1
Worker Confidence About Having Enough Money For a Comfortable Retirement

Overall, how confident are you that you (and your spouse) will have enough money to live comfortably throughout your retirement years? (2017 Workers n=1,082)



Source: Employee Benefit Research Institute and Greenwald & Associates, 1993–2017 Retirement Confidence Surveys.

Public Sector Employee Savings Confidence

Table 10: Overall Retirement Income Confidence Among State and Local Government Employees, 2012-2016

	All public sector employees			K-12 teachers			Police and firefighters		
<i>Overall, how confident are you that you will have enough money to live comfortably throughout your retirement years?</i>									
	2016	2014	2012	2016	2014	2012	2016	2014	2012
Very confident	19%	18%	21%	17%	15%	22%	24%	28%	29%
Somewhat confident	57	56	52	59	58	51	59	59	54
Not too confident	20	22	17	20	22	20	13	11	11
Not at all confident	4	4	10	3	5	7	3	2	5

Source: Retirement Confidence Survey of the State and Local Government Workforce (2012, 2014, 2016), TIAA Institute and the Center for State and Local Government Excellence.

Data Development Opportunity: In 2015 LA City survey, respondents were asked to what degree they agree with the statement: "I am confident that I am on track to achieve or maintain a secure retirement." **88% either somewhat or fully agreed.** This is an important metric that should be incorporated into annual surveys.

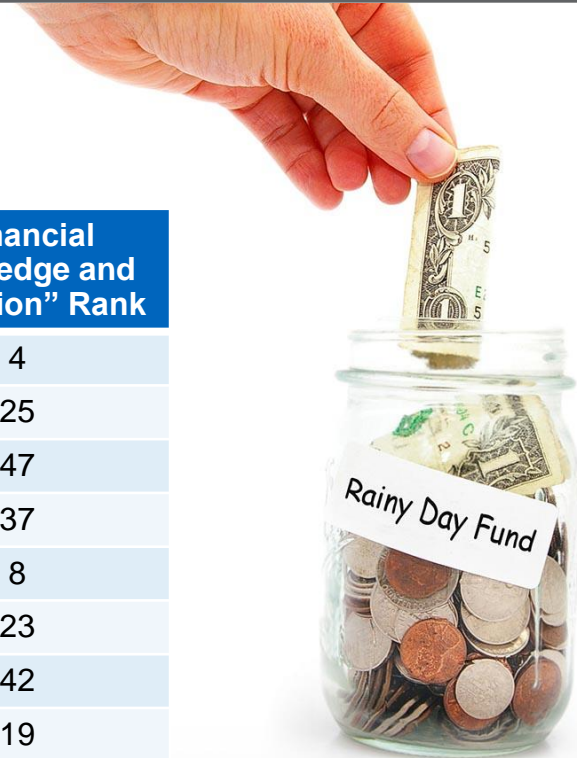
Source: Retirement Confidence Survey of the State and Local Government Workforce (2014). TIAA-CREF Institute and the Center for State and Local Government Excellence; Retirement Confidence Survey of the State and Local Government Workforce (2012). TIAA-CREF Institute and the Center for State and Local Government Excellence:

Financial Literacy*

Where does California stand?

Most Financially Literate States

Overall Rank*	State	Total Score	“WalletLiteracy” Rank	“Financial Planning and Habits” Rank	“Financial Knowledge and Education” Rank
1	New Hampshire	70.28	1	4	4
33	California	60.35	2	46	25
4	Utah	67.83	3	1	47
9	North Dakota	65.69	4	9	37
3	Minnesota	67.93	5	8	8
36	Wyoming	59.55	6	45	23
31	Idaho	61.34	7	25	42
27	Massachusetts	61.63	8	34	19
2	Virginia	68.15	9	2	29
11	Michigan	65.00	10	14	20



Highest Share of Adults with Rainy-Day Funds

1. North Dakota
2. New Hampshire
3. Minnesota
4. Hawaii
5. California

Data Development Opportunity: The City has not previously developed data regarding participant financial literacy. This is an important metric that should be incorporated into annual surveys.

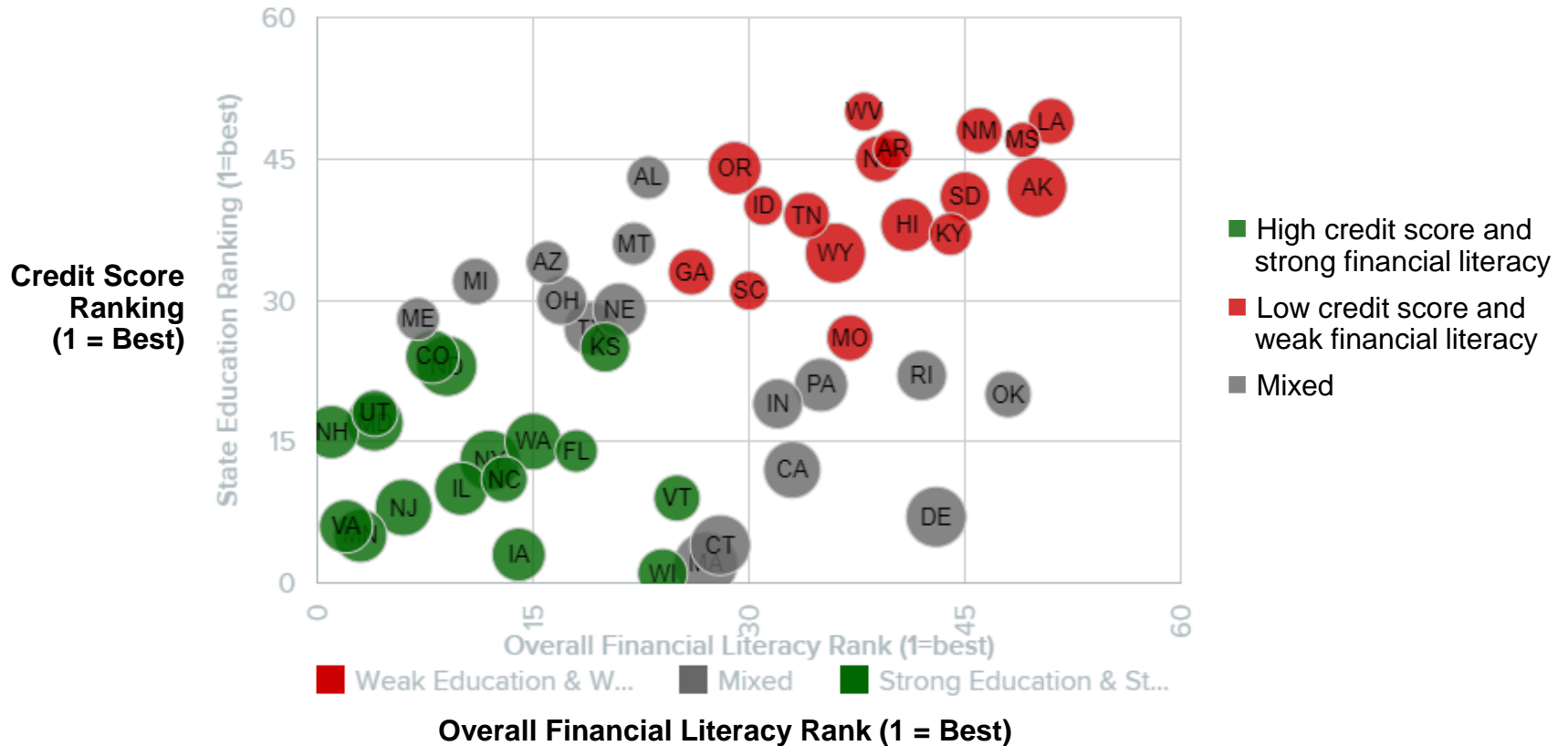
* <https://wallethub.com/edu/most-and-least-financially-literate-states/3337/#methodology>

Financial Capabilities

Correlation Data

EDUCATION VS. CREDIT RATE STANDING

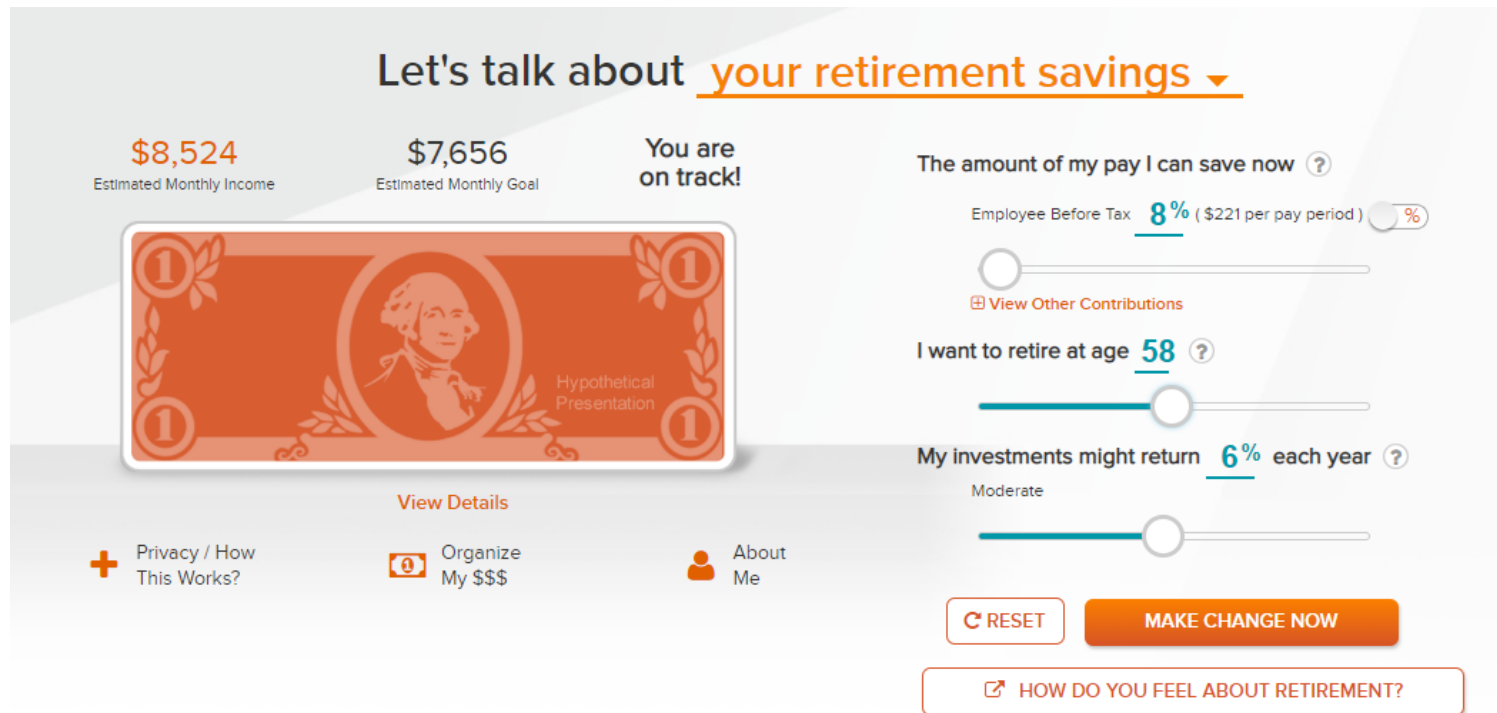
Correlation Analysis



Helping Participants Understand Income Adequacy

Show participants the value of their DC plan expressed as a monthly income stream

- A study shows that 85% of participants said that having a retirement income projection of their DC account balance would be useful or very useful.
- 35% of participants whose projected value was less than expected would more likely increase their savings levels



Managing Retirement Income

Identifying what drives retired participant behavior...

1. Distribution patterns and motivations

- Emergency account? Income stream? Major purchase fund (e.g. car)?

2. Rollover elections

- Professional advisors? Family members? Fee awareness?

3. Deferred distributions

- Funds intended for heirs?
- Supplement not needed?
- RMD awareness?



Data Development Opportunity: The City is developing research to determine perceptions, motivations, awareness, and behaviors regarding distributions, rollovers, deferred distribution, and other retired participant decision-making.

Managing Retirement Income

A greater role for annuities?

- Even with a defined benefit pension, participants may still need to supplement this income stream and they:
 - Tend to underestimate their (and their spouses') longevity
 - More than 1 out of every 10 couples will have at least 1 person surviving to 100
 - Have difficulty creating an investment/spend down plan for a lengthy retirement

PROBABILITIES OF A 65-YEAR-OLD LIVING TO AGE 90 AND 95*

Age	Probability	
	Male	Female
90	32%	41%
95	13%	20%

- In DC plans annuity usage is low; recent IRS regulations have exempted the value of Qualified Longevity Annuity Contracts (QLACs) from RMD requirements to facilitate purchases of these deferred annuities and emerging guaranteed income products

* Source: SOA [proposed RP-2014 Mortality Tables](#)

Next Steps

City of LA Opportunities to Build on Success

- ❑ **Survey: Income Adequacy:** Institutionalize annual survey to develop trend data regarding participant attitudes about retirement confidence and beliefs about saving (actives) and income adequacy and account distribution preferences (retirees)
- ❑ **Survey: Financial Literacy:** Use annual survey to develop data regarding participant financial literacy
- ❑ **Retirement Income Replacement Data:** Develop trend data analyzing retirement income replacement rates
- ❑ **Case Study Research:** Develop custom research around retired participant behaviors and perceptions relating to asset preservation and income adequacy
- ❑ **Data Segmentation:** Develop data isolating trends, behaviors, and beliefs about retirement income adequacy by key organizing categories: department, labor type, gender, age, race/culture
- ❑ **Targeted Marketing:** Create targeted marketing strategies designed to influence key behaviors relating to participation, contributions, distributions, and asset retention
- ❑ **Auto Enrollment:** Expand auto enrollment to include all bargaining units
- ❑ **Retired Participant Expense Management Tools:** Create retirement expense management tools

Thank you!



Discussion