

Rebuilding Retirement Systems Post-COVID-19



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Proverbial “3-legged Stool” of Retirement Security

- **Public Social Security:**
 - Often PAYGO (tax financed)
 - Insurance element: get more if pay in more
 - Welfare element: redistributive
- **Employer-sponsored Pensions**
 - Defined Benefit (DB)
 - Defined Contribution (DC)
 - Hybrid
- **Private Savings**
 - Home
 - Financial assets



Two Main Pension Types:

➤ **Defined Benefit (DB):**

Benefit formula promised

e.g. $B_t = 2\% * (\text{Final Pay}) * (\text{Years Service})$

Ex: Brazil, US, most European national systems

➤ **Defined Contribution (DC):**

Contribution amount specified:

e.g. $C_t = 6\% * \text{current pay}$

Ex: Chile, Mexico, US 401(k) plans



→ Hybrid (Cash Balance) combine both...

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Why fund a pension promise?

Pros

- May reduce uncertainty re future contributions
- Portfolio diversification
- Permits portability
- May deepen K mkt & enhance growth

Cons

- Requires start-up group to 'pay twice' – support retirees and save for themselves
- Admin costs may be higher (maybe not)
- Governance of funds



		Individual Accounts	
		NO	YES
Funded	NO	Govt PAYGO: US, most Europe Corp. DB: Germany	Notional accounts: Latvia, Sweden
	YES	Provident Funds: Singapore, Malaysia US corp./public DB (+/-)	Individual Accounts: US 401(k), Chile, Peru, Mexico, Australia, Sweden

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FULL Funding for DB and DC...

$$\text{Assets} = \text{Liabilities}$$

DC full funding

requires:

- Assets = Current Account Balance

DB full funding

requires:

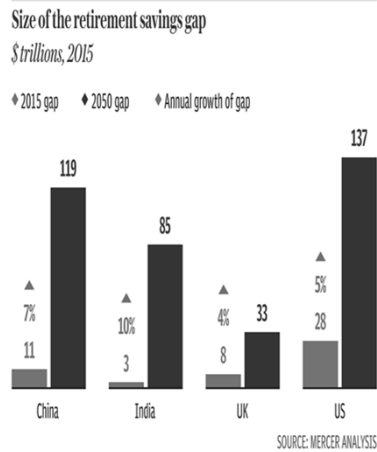
- Assets = EPV of Promised Benefits

→ Reporting and accounting rules play key role

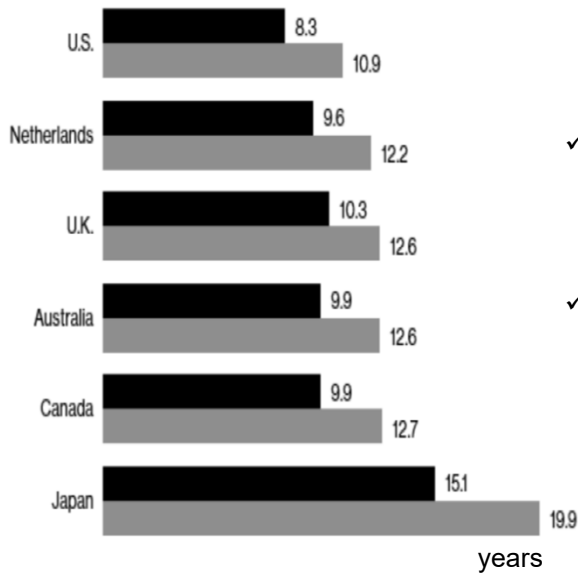
Pre-COVID-19: Retirement Systems Not Healthy

- Social Security systems facing insolvency
- Private & public DB plans underfunded
- Low returns hurting DC plans
- Rising debt, falling saving

WEF: Underfunded pensions a global time bomb!



Retirement Savings Gaps, Pre-COVID-19



✓ Black bars reflect how many years of assets retirees have to live on.

✓ Blue bar refers to life expectancy at retirement.

Melbourne Mercer Pension Sustainability Rankings, Pre-COVID-19

Grade	Countries	Descriptors
A	Netherlands, Denmark	Robust, good benefits, sustainable, good integrity
B+	Australia	Sound but some areas for improvement
B	Finland, Sweden, Norway, Singapore, NZ, Canada, Chile, Ireland, Switz., Germany	
C+	USA, UK, HK, Malaysia, France	Some good features but also major risks, maybe not sustainable
C	Peru, Colombia, Poland, Saudi, Brazil, Spain, Austria, S. Africa, Italy, Indonesia	
D	Korea, China, Japan, India, Mexico, Philippines, Turkey, Argentina, Thailand	Major weaknesses, sustainability in doubt

Preparedness for Healthcare Costs in Retirement, Pre-COVID-19



Latest World Economic Outlook Growth Projections

(real GDP, annual percent change)	PROJECTIONS		
	2019	2020	2021
World Output	2.9	-4.9	5.4
Advanced Economies	1.7	-8.0	4.8
United States	2.3	-8.0	4.5
Euro Area	1.3	-10.2	6.0
Germany	0.6	-7.8	5.4
France	1.5	-12.5	7.3
Italy	0.3	-12.8	6.3
Spain	2.0	-12.8	6.3
Japan	0.7	-7.0	2.4
United Kingdom	1.4	-10.2	6.3
Canada	1.7	-8.4	4.9
Other Advanced Economies	1.7	-4.8	4.2
Emerging Markets and Developing Economies	3.7	-3.0	5.9
Emerging and Developing Asia	5.5	-0.8	7.4
China	6.1	1.0	8.2
India	4.2	-4.5	6.0
ASEAN-5	4.9	-2.0	6.2
Emerging and Developing Europe	2.1	-5.8	4.3
Russia	1.3	-6.6	4.1
Latin America and the Caribbean	0.1	-9.4	3.7
Brazil	1.1	-9.1	3.6
Mexico	-0.3	-10.5	3.3
Middle East and Central Asia	1.0	-4.7	3.3
Saudi Arabia	0.3	-6.8	3.1
Sub-Saharan Africa	3.1	-3.2	3.4
Nigeria	2.2	-5.4	2.6
South Africa	0.2	-8.0	3.5
Low-Income Developing Countries	5.2	-1.0	5.2

Source: IMF, World Economic Outlook Update, June 2020

INTERNATIONAL MONETARY FUND

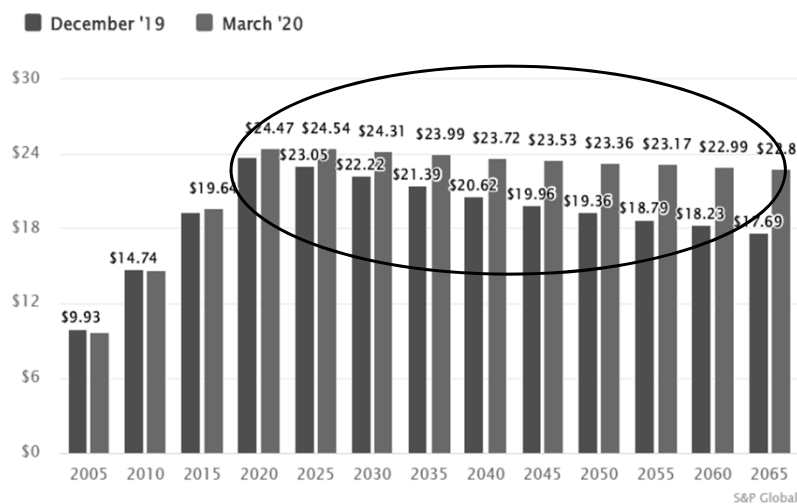
IMF.org

Uneven
global
impacts of
COVID-19:
IMF

GDP in 2020

- World -5%
- US -8%
- UK -10.2%
- EU -8%
- Russia -6.6%
- Dev'ping nations -3%

Retirement Saving Needed to Generate \$1/yr of Retirement Payouts for 25 Years



Each vintage reflects a target year for retirement.

Rapid Rollout: Social Insurance Programs Launched/Extended, COVID-19

June 6, 2020 (ILO) For update see <https://www.social-protection.org/gimi/ShowWiki.action?id=3417&lang=EN>

Reset

Countries with social protection responses



Colours range from minimum number of measures (light blue) to maximum (dark blue)

name_211

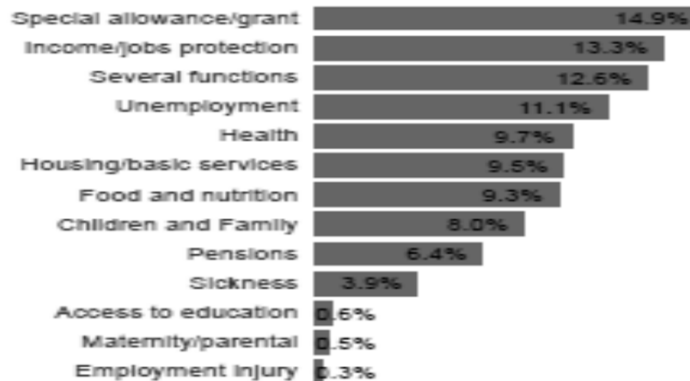
Responses cover all functions of social protection. Unemployment protection, income protection, housing and special allowance gather more than 50 per cent of measures. Health and food security play an important role in Americas, Africa and Arab States. Overall, most measures are of non-contributory nature, especially introduction of new programmes and benefits; while contributory nature is observed mainly in spending adjustments measures.

Types of Social Assistance Programs Adopted/Extended, Post COVID-19

Distribution of measures, by type of programme

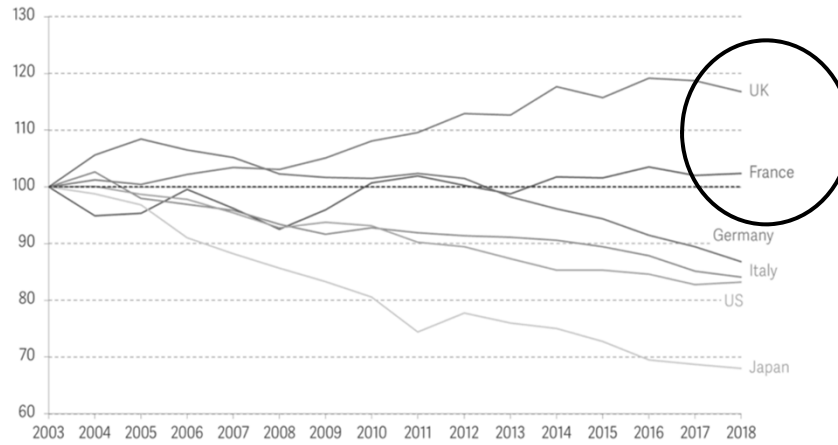


Distribution of measures, by function



Changes in Self-Employment over Time, Pre-COVID-19

Index of self-employment as a proportion of total employment (2003 = 100)

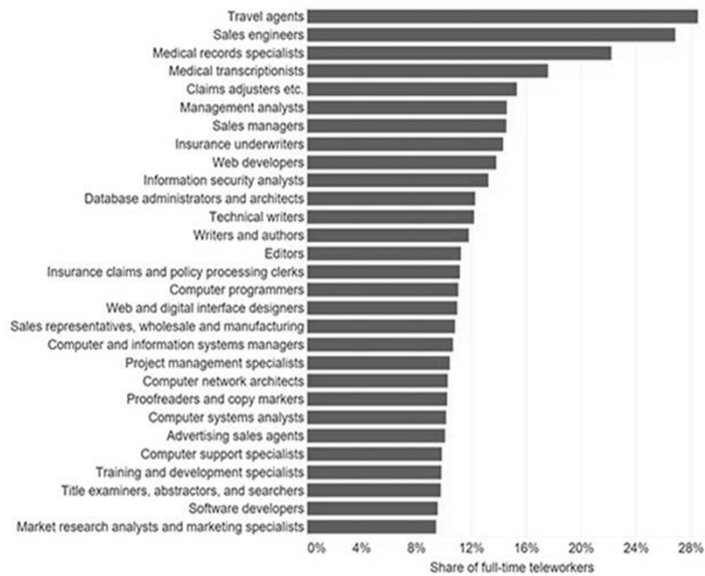


Source: RF analysis of OECD, Self-employment rate (indicator).

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Working primarily from home is already common in some occupations
Full-time employees primarily working from home as a percent of total full-time employment by detailed occupation, 2018

Work From Home? Some can, others cannot.

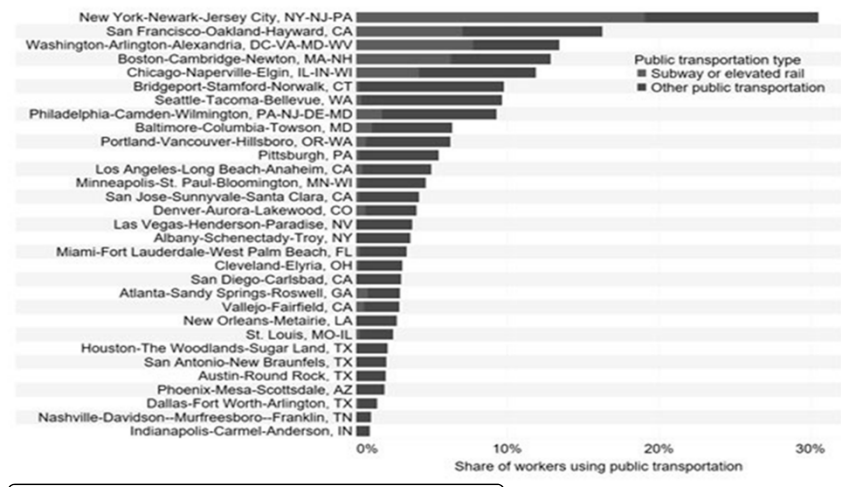


www.conferenceboard.org

Labor Markets May Take Longer to Recover Where Many Rely on Public Transportation

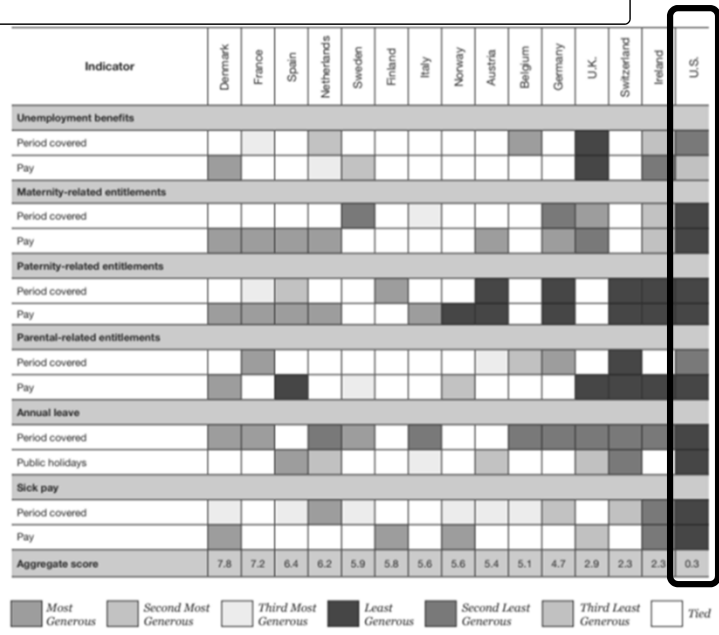
It might take longer to go back to work in metro areas with high shares of workers using public transportation due to the higher risk of contagion

The share of workers commuting to work using public transportation, 2018



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Job Benefits In the EU & U.S.



How Much to Save for 50% RR?

Save for: $r=0.03$

20 years 27.5%

30 years 16.5

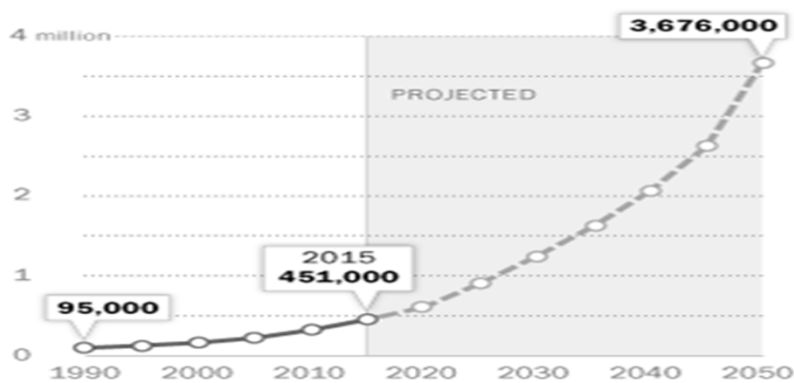
40 years 11.11

Pote:

And Longevity Still Rising

The world's centenarian population projected to grow rapidly

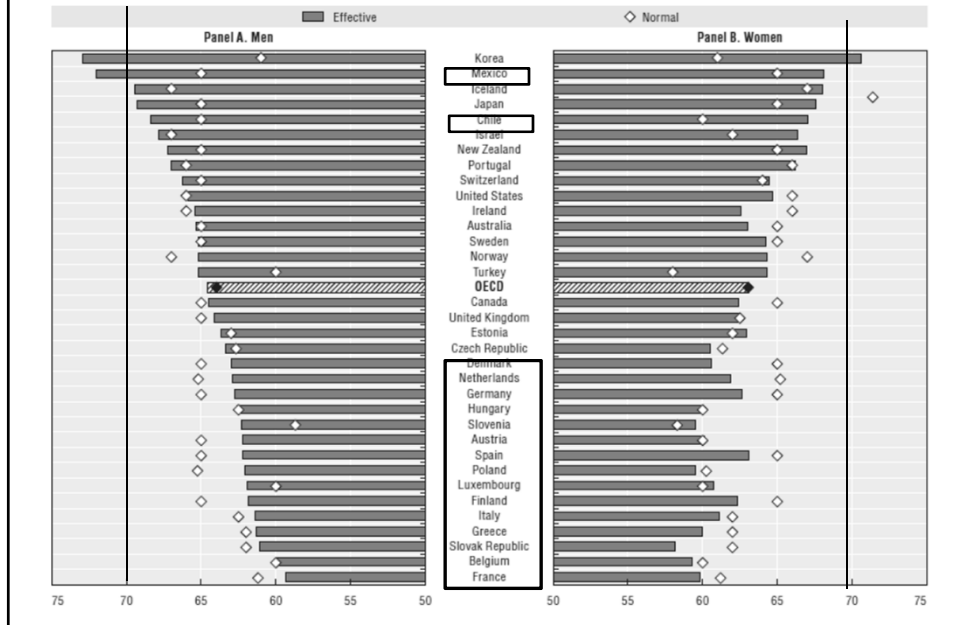
Number of persons ages 100 and older



Source: United Nations, Department of Economic and Social Affairs, "World Population Prospects: 2015 Revision"

PEW RESEARCH CENTER

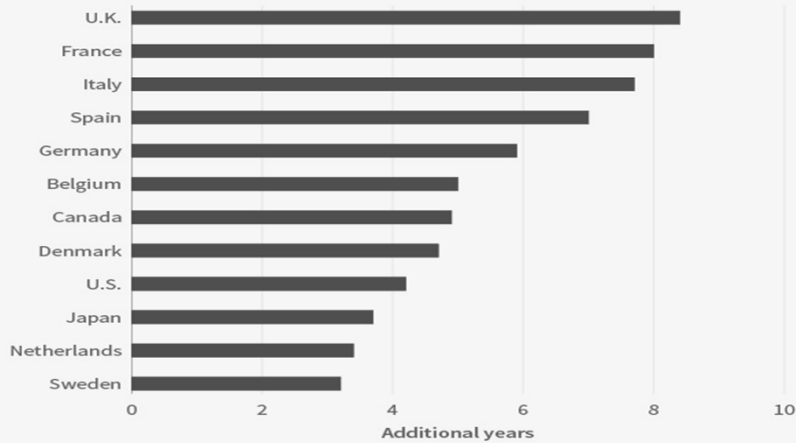
Retirement Ages must Rise



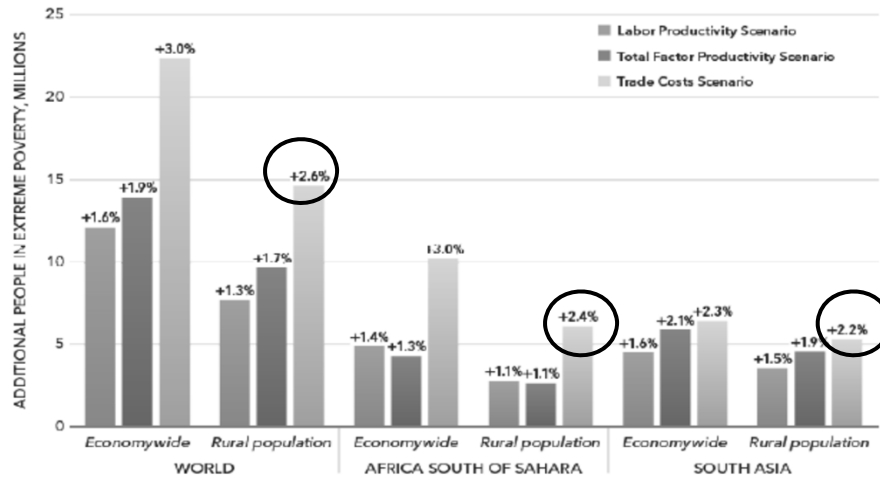
Many Have Substantial Capacity to Work

WORK CAPACITY IN OLD AGE

Additional years of work from ages 55 to 69 if men in 2010 worked as much as men of same mortality risk in 1977



M & %↑ in Extreme Poverty (<\$1.90/day) w/ Declining Growth, Post-COVID-19



Source: MIRAGRODEP simulations

Notes: PPP = purchasing power parity. The percentages above each bar in the graph refer to the percent change from the base number of poor.
IFPRI

To better manage retirement risk:



❖ Reinvent retirement!

- Build human capital and work longer;
- Invest in financial literacy;
- Save more, invest smarter, diversify better;
- Insure against longevity;
- Make home equity accessible;
- Restructure public/private pensions.

➔ New infrastructure needed to:

prepare/mitigate; better educate; & build better financial products and markets for an aging world.

The Way Ahead:



- Who should manage the risks facing the elderly?
 - Individuals, families, employers, govt?
 - Funded vs pay as you go?
 - Pension vs health care?
- How much of GDP should go to the elderly and who should pay for it?
- How do we get to political consensus?

International Pension Research Association (IPRA) www.iprassn.org

- IPRA is a new international organization seeking to improve the quality and impact of research on pensions and related aging issues, to optimize social and economic outcomes for an aging world.
- IPRA's vision is to be the global voice of research in the fields of pensions, aging, and retirement.
- IPRA's values are to promote breadth, originality, and challenging thinking, so as to foster respectful collaboration and engage stakeholders, and, by example, to support integrity and good governance.
- Join now online!

Thank you!

For more information:

Wharton's Pension Research Council:

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Books and working papers:

<http://www.pensionresearchcouncil.org/publications/books.php>

