

US/UK Day One Summary

Dallas L. Salisbury

CEO

Employee Benefit Research Institute

The Opening

- Absence of meaningful supplementation of SSA for most.
- Hope for voluntary system has not been realized.
- Introduction of defaults into voluntary plans may assist.
- Universal 401(k) mandate may be needed.
- Annuities to deal with longevity risk are needed.

Demographics: Implications for retirement

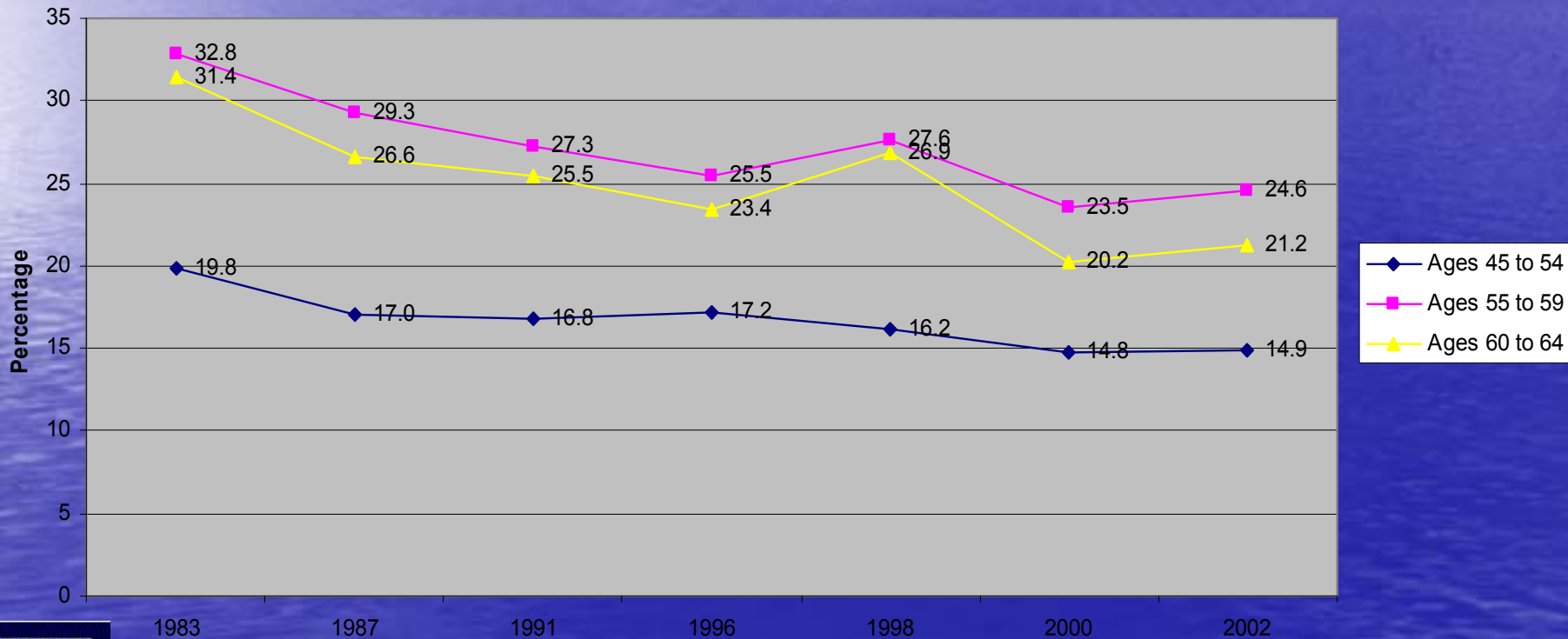
People need to fund themselves for more retirement years, but
can have more working years

Retirement incentives still move older people out of the work
force early

Family situations are more varied

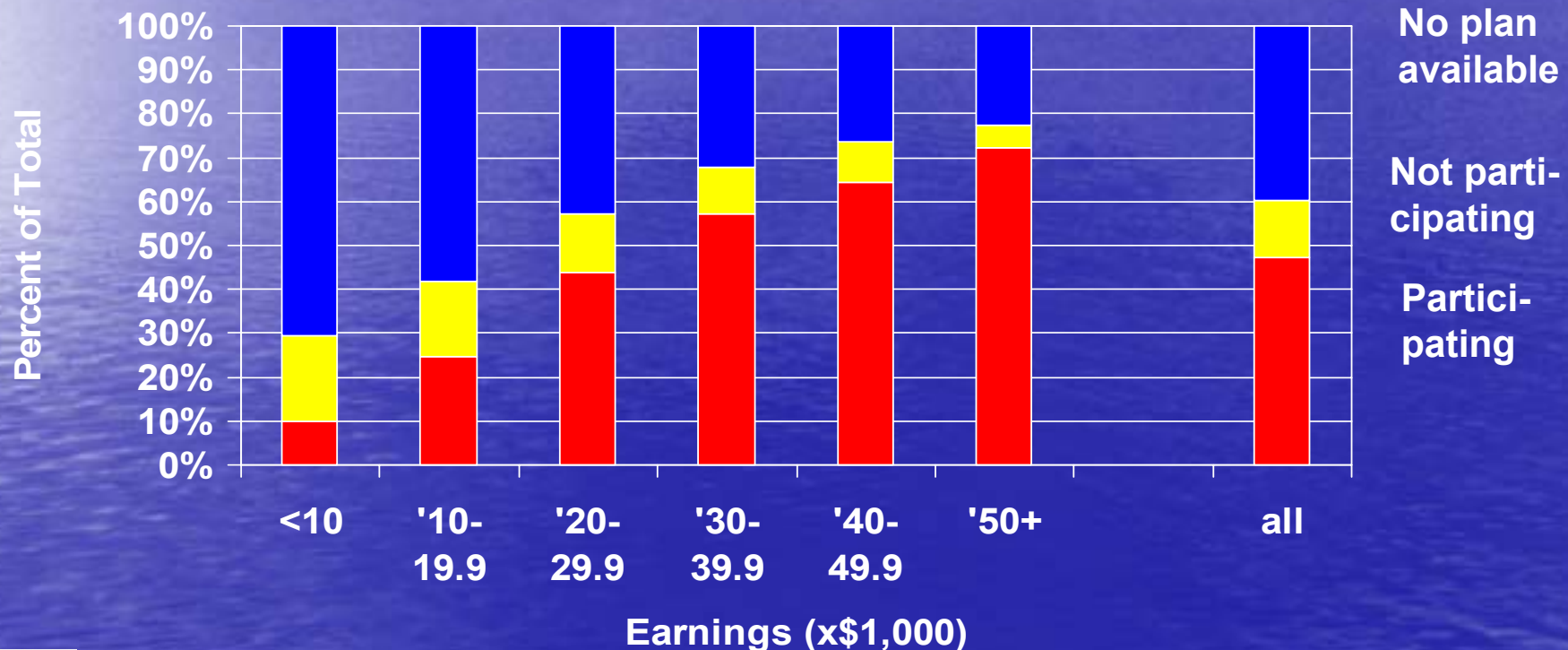
Percentage of Older Long Tenure Workers Was Never Above 1/3

Percentage of Male Wage & Salary Workers with 25+ Years of Tenure, by Cohort Ages 45+ (1983--2002)



Source: EBRI tabulations of data from the Bureau of Labor Statistics

Retirement Plan Participation, Private Wage and Salary Workers



Longevity



- Compulsory Insurance and Affordability
- Moral Hazard – The Pension Put
- Capital Market Innovation
- Transparency of information and mark to market vs smoothing
- Use of credit information/risk in setting premiums.
- Need to find a way to build trust that a pension promised will be a pension paid (or at least paid in part)
- How to get employers to make the voluntary decision to sponsor within the regulatory approach

Society must choose between these four options. There are no alternatives.

- Pensioners poorer relative to average incomes
- Higher taxes/NI contributions devoted to pensioners
- Higher funded pension savings
- Higher average retirement ages

UK/US Have in Common

- Demographics and longevity.
- DB to DC shift.
- Savings and retirement income adequacy shortfall.
- Societal gap to maintain living standards.
- Pension protection fund/PBGC challenges.

UK/US Differences

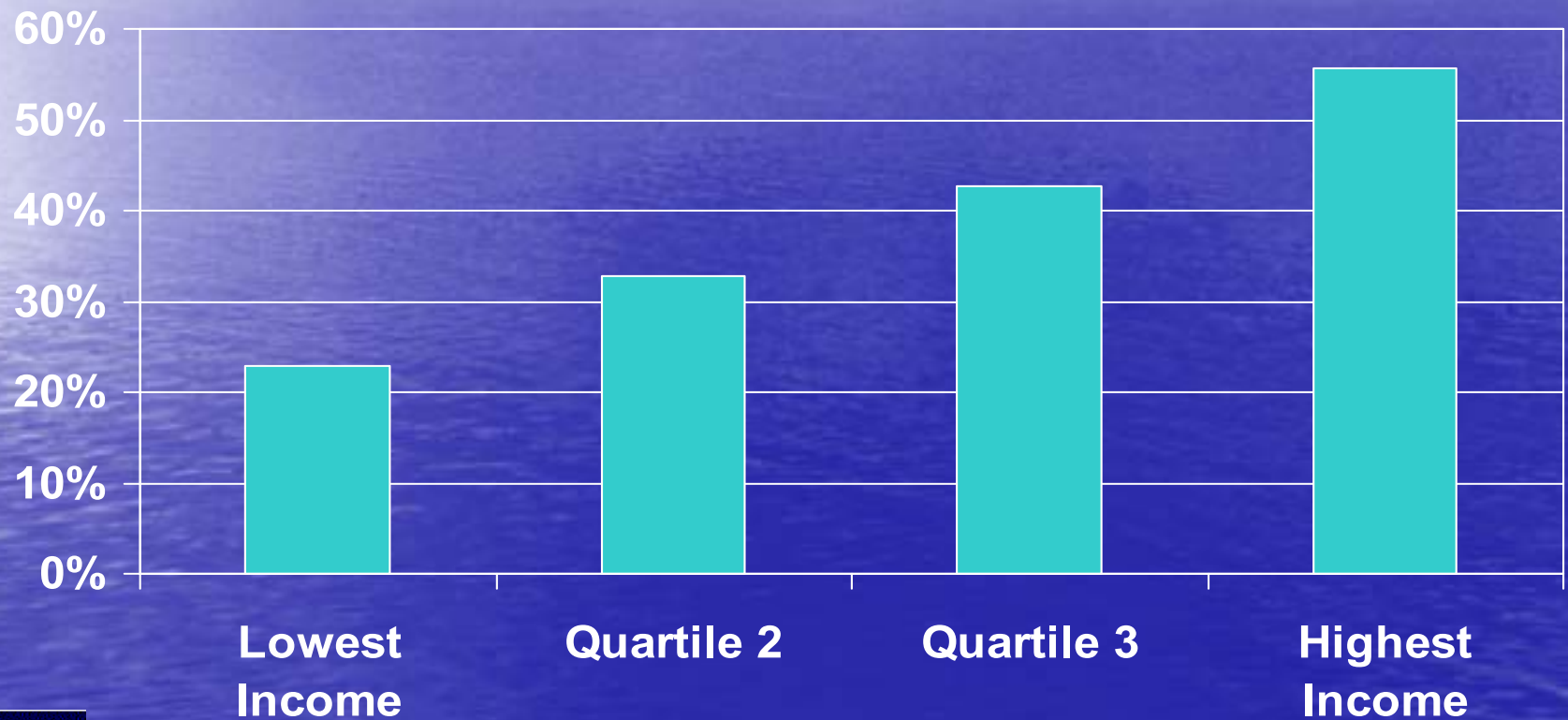
- UK focus and concern with income adequacy as US focuses on access and accumulation
- UK total coverage declines as US coverage grows.
- UK decline in contribution % of GDP as US contribution % increases.

● UK higher % saying they will use home value to support retirement in all groups with US percent constant and low

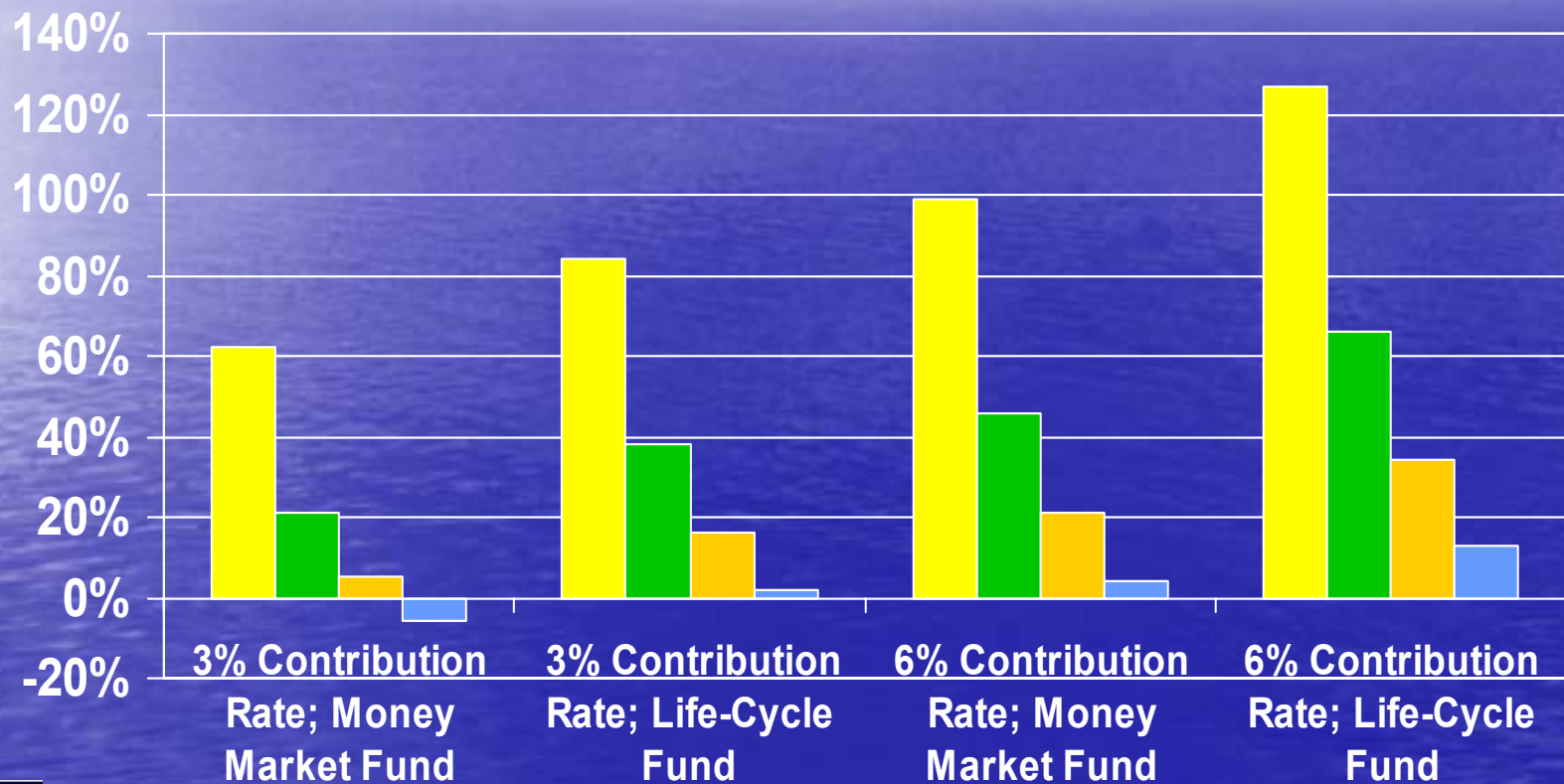
Discussion Groups

- Outlook for DB plans is not optimistic.
- HYBRID and “new paradigm” may “help”
- Auto-enrollment increases participation and long term account balances.
 - More extensive use in UK (41%) than in US (less than 15%)
- Communication is tough – you can lead a horse to the water but you cannot make them drink or, in the words of George Bernard Shaw: “The single biggest problem with communication is the illusion that it has taken place.”

Median Replacement Rates From 401(k) Accumulations for All Eligible Workers Turning 65 Between 2030 and 2039, by Income Quartile at Age 65: Without Automatic Enrollment



Impact of Automatic Enrollment: Increase in Median Replacement Rates From 401(k) Accumulations for All Eligible Workers Turning 65 Between 2030 and 2039, by Income Quartile at Age 65



■ Lowest Income
 ■ Quartile 2
 ■ Quartile 3
 ■ Highest income

Sources: Tabulations from Holden and VanDerhei (2005) and Automatic Enrollment Parameters from Choi, Laibson, Madrian, and Metrick (2001 and 2004)



New Paradigm?

- Greater flexibility to meet future change
- Manage costs and reduce funding volatility
- Increased employee responsibility & choices
- Increased portability
- Employer “facilitates” rather than provides
- Greater attention to “spend down” period
- Flexibility to attract and retain valued talent
- Limit fiduciary liability litigation

The New Paradigm Plan?

- A “Roth” Money Purchase Pension Plan with employee contributions
 - Employer base contribution for all
 - Employee optional contributions
 - Fixed pre-diversified portfolio
 - No loans or hardship withdrawals
 - Mandatory provision of an annuity option or required annuity purchase for amount up to SSA
 - No PBGC premiums or protections

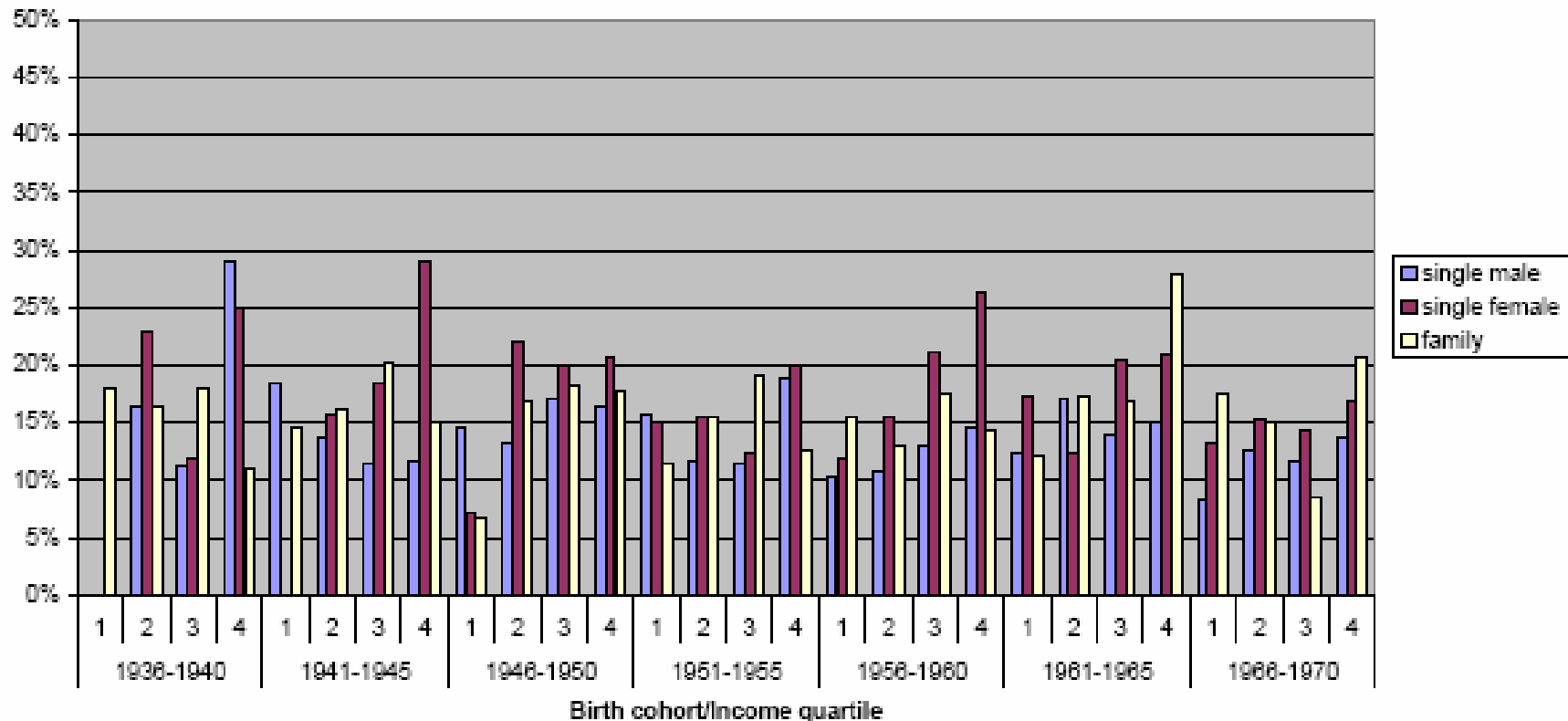
Most pensions pre 1974

- Participation was mandatory.
- Contributions were mandatory.
- Investment decisions were made by professionals.
- The government or the employer promised to find the money to pay the benefit.
- The benefit was not paid until a specified retirement age was reached, or in the event of disability, or as a survivor benefit in the event of early worker death.
- The benefit was generally paid as long as the individual or the surviving spouse lived.

Lump sums require greater savings

Figure 7

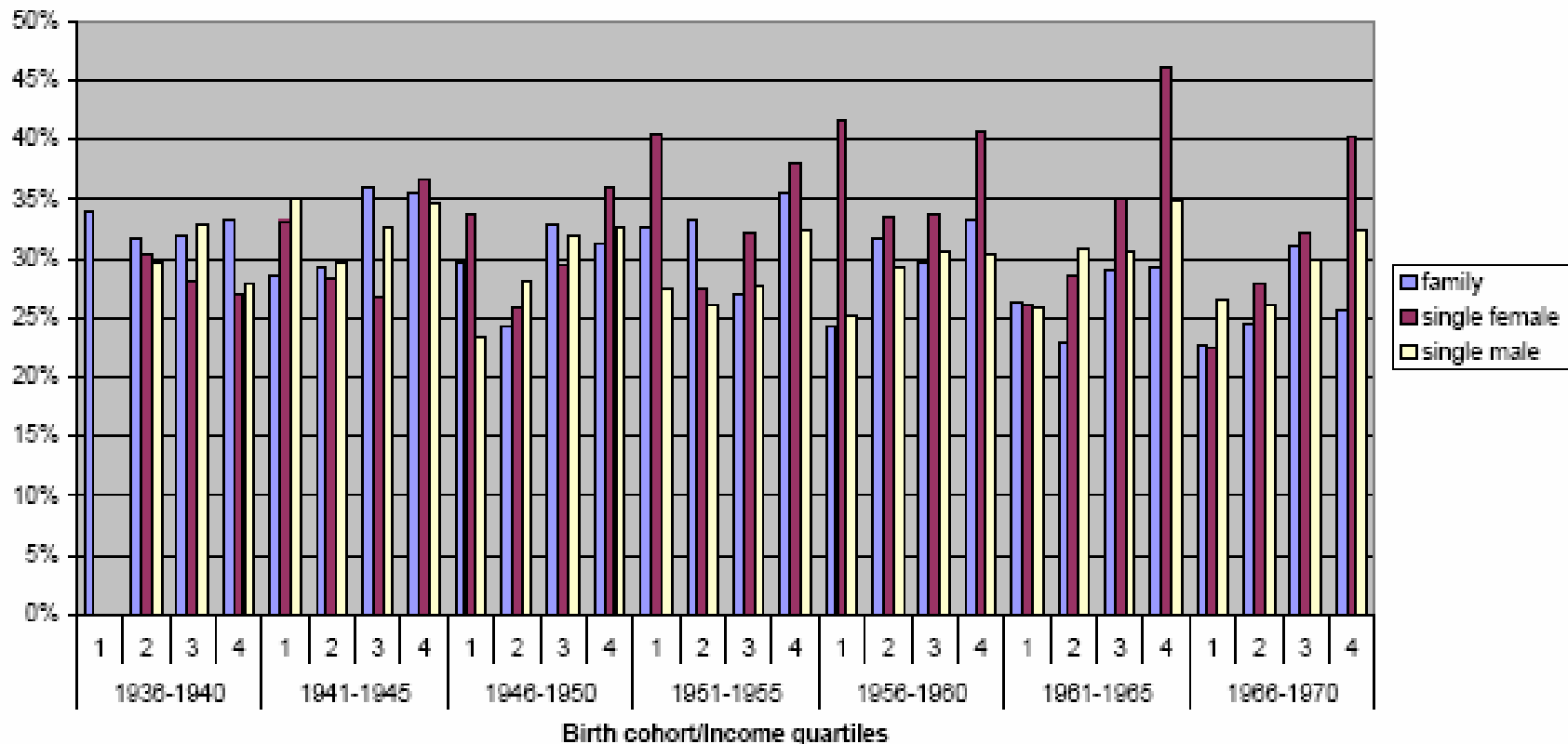
Percentage Increase in Median Percentage of Additional Compensation That Must Be Saved Annually Until Retirement for a 75% Chance of Covering Simulated Expenses as a Result of Assuming All Defined Benefit Participants Take LSDs at Retirement



Source: EBRI-ERF Retirement Security Projection Model

Annuities require less savings

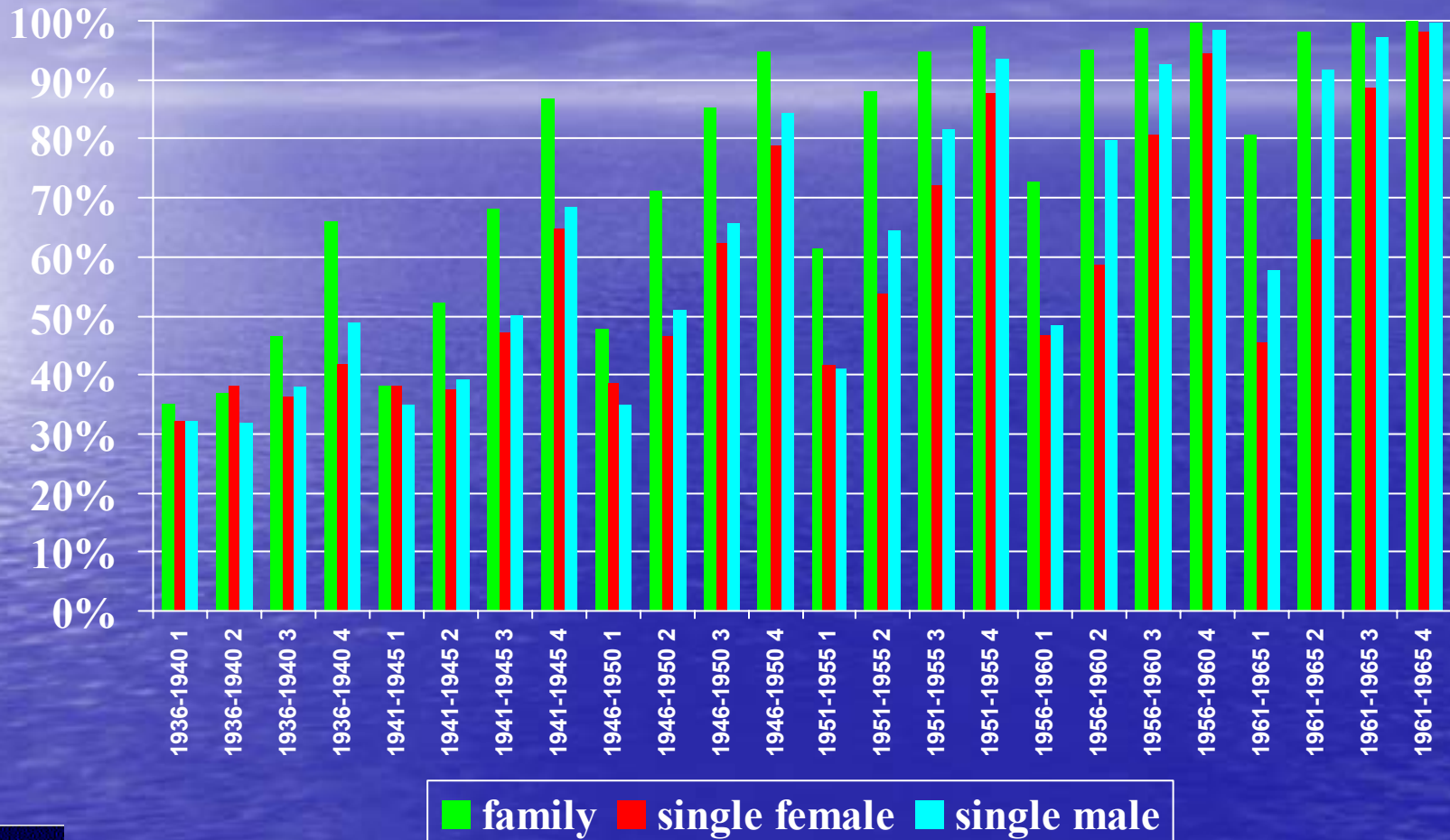
Figure 8
Percentage Reduction in Median Percentage of Additional Compensation That Must Be Saved Annually Until Retirement for a 75% Chance of Covering Simulated Expense as a Result of Annuitizing All Individual Accounts at Retirement



Source: EBRI-ERF Retirement Security Projection Model

Required savings at even 5% would make a big difference

Percentage of Retirees Estimated to Have Sufficient Retirement Income/Wealth to cover Basic Expenses* by Saving 5% of Compensation Each Year From 2003 Until Retirement (assumes current Social Security benefits)

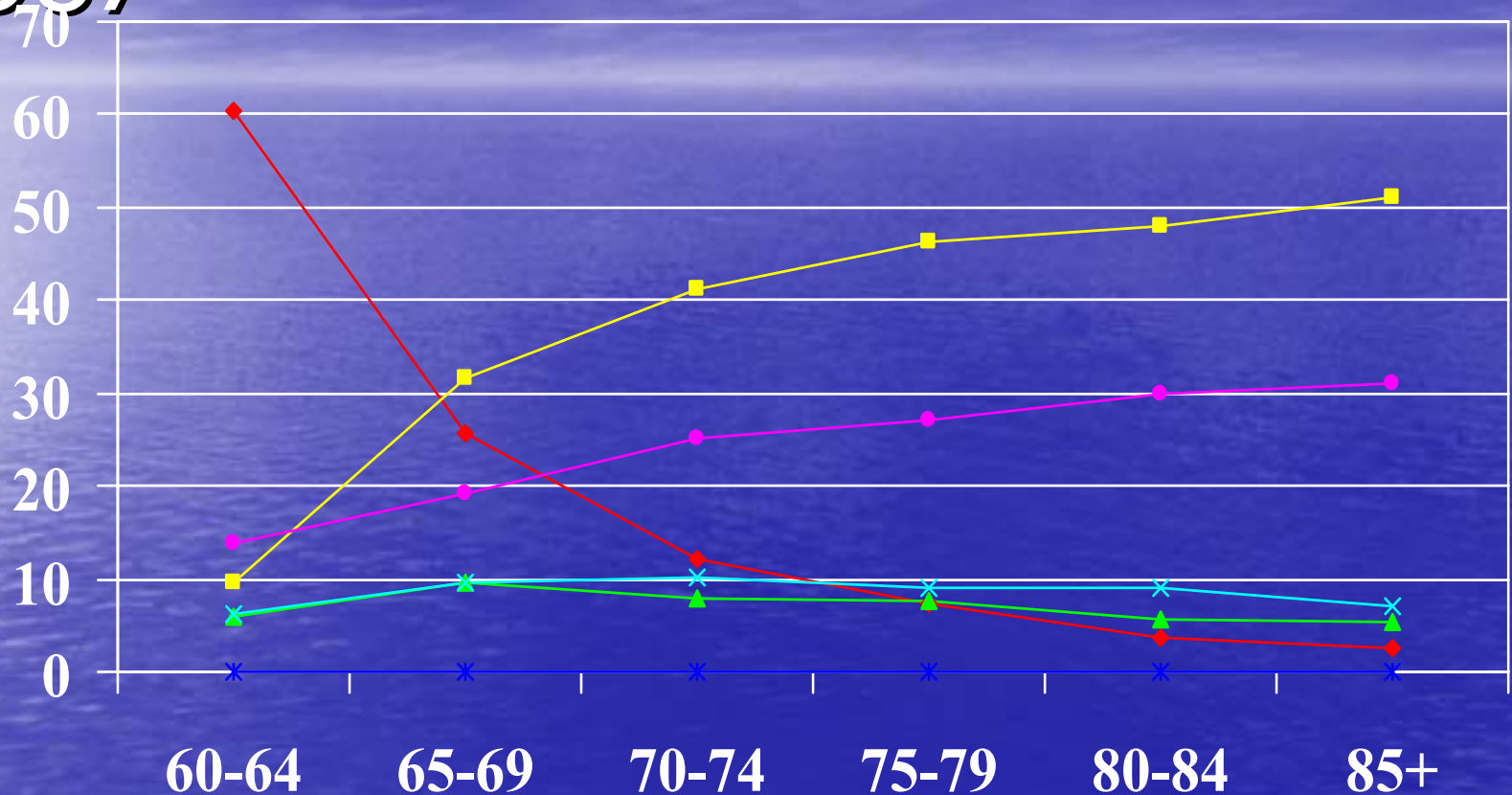


* Basic expenses = basic living expenses and any expense associated with an episode of care in a nursing home or from a home health care provider

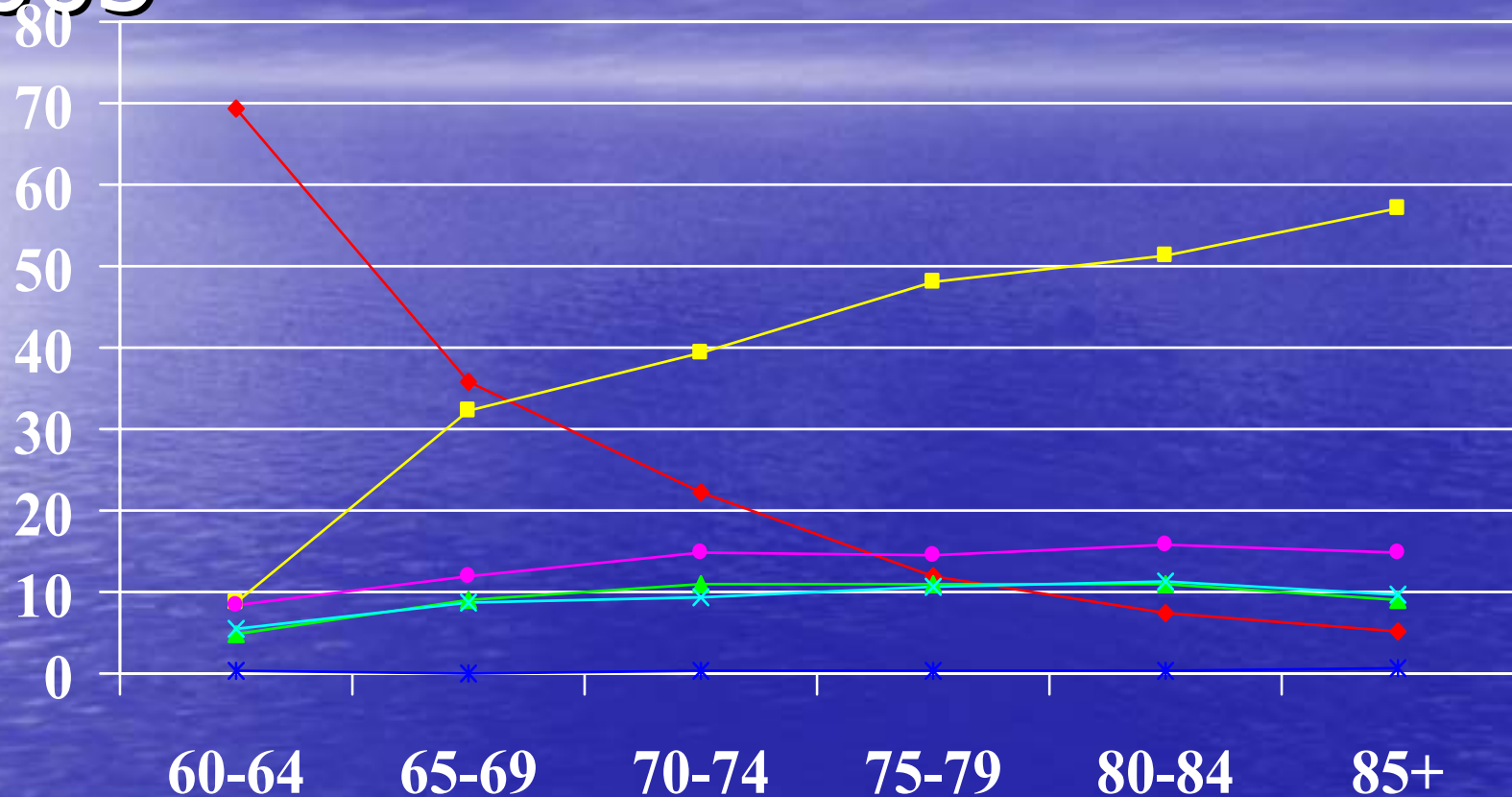
Source: EBRI-ERF Retirement Security Projection Model and Issue Brief Number 263 Figure 20 page 24.



Percentage sources of income 1987



Percentage sources of income 2003



...AND FOR ALL YOUR YEARS OF SERVICE HERE AT THE FIRM, WE'D LIKE TO PRESENT YOU WITH THIS SPECIAL GOLD CLOCK.

SPECIAL GOLD CLOCK?

YOU HAVE NO PENSION!!!
TIME TO GET UP AND
GO BACK TO WORK!!!

SOMETHING TO
REMEMBER THEM BY. —

UNIVERSAL PEEK 5448
©2005 THE WASHINGTON POST

TOLSON

1-20-05

Choose to Save.®

Education Program

Or Work Forever!

www.ebri.org