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Building a Better Retirement System

Tuesday, April 23
5:30 pm Panel | 7:00 pm Reception
Cowles Auditorium, Humphrey Conference Center

Featuring:

JEFF BAILEY
Finance Lecturer, Carlson School of Management & Former Senior Director of Benefits, Target Corporation

GREG MENNIS
Director, Public Sector Retirement Systems, The Pew Charitable Trusts

KURT WINKELMANN
Senior Fellow of Pension Policy, Heller-Hurwicz Economics Institute

Moderated By:

CHRIS FARRELL
Senior Economics Contributor, Marketplace & Economics Commentator, MPR

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Prof. Phalen: I'm Chris Phalen. I'm a professor and the chair of the Department of Economics. On behalf of the department and the Heller-Hurwicz Economics Institute, I'm thrilled to welcome you all to tonight's lecture. Tonight's conversation will focus on how public and private retirement systems can be better informed by economic research, and how policy can help ensure more secure retirement systems. This is precisely the kind of rich research-based conversations that the Heller-Hurwicz Economics Institute has become known for and what it was started for.

Through events like tonight's lecture, we aim to spark dialogue and debate, and inform and influence public policy and practice. Tonight's conversation will be moderated by Chris Farrell. Chris is a senior economics contributor at Marketplace, American Public Media's nationally syndicated public radio business and economics program, and an economics commentator for Minnesota Public Radio. An award-winning journalist, Chris is a regular contributor to "PBS Next Avenue" and the "Minneapolis Star Tribune." He has written for "Bloomberg Business Week," "The New York Times," and "Kiplinger's" and has authored several books on retirement. Please join me in welcoming Chris, who will introduce our other speakers.

Chris Farrell: Thank you. Well, thank you very much for joining us in our discussion about this really critical and timely topic. Just to give you one number, the Census Bureau says in 2035, for the first time in U.S. history, there'll be more people 65 and older than 18 and under in the U.S. This is the context in which we're talking. Plus, it is a beautiful day out there. I'm going to be asking a lot of questions. I'm going to do very brief introductions to the other panelists. They have impressive resumes. But for the interest of getting right to our discussion, I'm going to keep it short. And then, later on, we're going to open up to your questions.

Jeff Bailey is finance lecturer, Carlson School of Management. He's the former senior director of benefits at the Target Corporation. Greg Mennis is Director of Public Sector Retirement Systems Research for Pew Charitable Trusts. And to my far left, Kurt Winkelmann is senior fellow pension policy at the Heller-Hurwicz Economics Institute at the University of Minnesota. So, for all three of you, the same question, the naive question that the moderator gets to ask, so what's the problem? We titled this session "To Build a Better Retirement System." How are you looking at the problem? Let's start with you, Greg.

Greg Mennis: Well, first off, thanks so much for having me here today. This is a tremendous event. And, as you mentioned, my work at Pew is focused very much on public sector retirement systems. So from that perspective, our focus is very clear, which is we want those systems to be sustainable. And what that means is that the public pension benefits are affordable for state and local governments, and in particular that we mitigate and take action to avoid crowd-out. That's been the biggest problem for the underfunded pension systems in the country. States like Illinois and New Jersey, which are now spending upwards of 50% or more of their 15% or more of their budgets on public pensions. So, sustainable to start with addresses that issue. But the second piece of it is preserving a path to help public workers achieve retirement security. And for those of us that believe in public service, I think that's also essential. And so it's really those two parts of having a sustainable public sector retirement system that we are focused on.

Chris: Jeff.

Jeff Bailey: Well, I'm going to take the corporate defined contribution side of this discussion. I've worked on the public pension side actually for quite a few years, and Target sponsored a defined benefit plan. But my particular interest is in defined contribution plans. And I think...

Chris: Which is like a 401(k).

Jeff: It's like a 401(k). Other organizations may offer different types of plans, but yes, 401(k) would be the most common form that you'd recognize. But I think the challenge or the struggle is to make that system work for the largest number of employees. In well-resourced large companies like Target, full-time workers do extremely well in 401(k) plans. In smaller companies, where in many cases a plan isn't offered or in many cases if they do offer it, it's high-cost, limited options, the plans don't work well for them. For part-time workers, plans don't work well. 401(k) plans don't work well. You can sort of run the gamut of sort of segregation of different groups in society, and you could find that some groups do extremely well in these defined contribution plans and some groups just do very poorly.

Chris: Kurt, you're sort of the instigator of this whole concept.

Kurt Winkelmann: Yeah. I know. So I'm gonna take a slightly different point of view on which I hope we'll get both Greg and Jeff's perspectives. I think the bigger problem, if we're going to think about pensions and retirement income as part of the social safety net, is to basically minimize the risk for retirees in terms of sustaining retirement or secure retirement. So the DB, DC are basically means to an end. But the ultimate metric, at least as far as I'm concerned, is having a system that's sustainable so that the fewest people are without an actual retirement benefit. And, to me, if we're going to adopt the point of view that we have a kind of a social contract to have a social safety net.

Chris: And I assume everybody in this audience knows but you're going to hear DB, DC a lot. And just to be clear, DB is a defined benefit plan. It's your traditional pension that's like a wage, right? It's like you get a check. And DC is defined contribution, your 401(k) plan. So, Kurt, back to you, and maybe you can answer this question. So one of the puzzlements that I have, the aging of the population is no mystery. We know that people are getting older. We know they have an inadequate retirement savings system. I'm sure it goes back even farther. But you can go to the first Bush administration, pretty good proposal for universal retirement savings with an IRA. Clinton administration, similar idea. The second Bush administration, the same idea. The Obama administration, a similar idea, all trying to address what, in particular, Jeff, you were talking about but also as more defined benefit plans for State and local also turned toward these kinds of plans. Nothing's really ever happened. How do you judge that?

Kurt: Not well. So, first of all, it depends on which part of the labor force we're talking about. So, when we look at this with a slightly different take, is if you look at the defined benefit system, and the public defined benefit system, and in the corporate defined contribution systems, they're all basically trying to solve the same problem. Yet, at the root, neither system really has enough money. In other words, people aren't putting enough money into their prime contribution plans. And the governance in terms of what's offered, in terms of advice just simply is, to be brutal about it, not very good in the aggregate.

So, now, given all of that, the challenge I think is, one, getting the political will to basically make changes in both systems. So, in the case of public funds in, particular, and I can go to corporate secondly, but for public funds, you have the issue...I mean, we already know they're underfunded. To resolve that issue really requires kind of an act of political leadership to make changes. And even crisis, like Greg mentioned, New Jersey and Illinois, which I think you could call them crisis states, you know, despite the fact it's been catastrophic, there still has not been a lot of change. I think you can put New Jersey in there as well. So the issue there is mostly a political one in the sense that people don't want to give up something that's a known quantity. And for the corporate sector, it's kind of a separate set of related kind of challenges in terms of the quality of advice, at least in my opinion.

Chris: So, Greg, in terms of, you know, mentioning, you know, Illinois, we all know about their problems, is anybody doing it right?

Greg: No, I think that's a great question. And one of the things that we've been realizing lately is that for all the attention that's been paid to Illinois and New

Jersey if you look more carefully at the numbers, there have been states like Wisconsin, Tennessee, and South Dakota that have had fully funded pension systems over two decades and two recessions that do a particularly good job of managing risk, and also do a particularly good job of providing retirement savings across the workforce, not just the people that will retire with a full pension but also the teacher that may work 5 or 10 years and then go down a different career path.

So I think through a lot of our work, we're trying to shift attention towards what our state's doing right. And I think there's another example, and I might disagree with something you said a moment ago, you listed a few proposed federal solutions...

Chris: That's right.

Greg: ...that I think were designed to provide access to retirement savings, to workers more generally, including those in the private sector. What we've seen recently is that state governments have stepped up and developed these state-sponsored programs. CalSavers in California I think will likely be the biggest, that are targeted specifically to lower and middle-income individuals. So I think that that's a really interesting shift where we've talked so much about underfunded public pension systems and the challenges of federal solutions. And now we're shifting our attention to the states that are doing things right on the public side and the idea that state-sponsored plans can solve some of these problems that we've struggled with previously.

Chris: And, Jeff, these state-sponsored plans are trying to address at least part of the issue that you're talking about, the part-time worker, the worker at the small business.

Jeff: Correct. Yeah, I mean, to me, it's really interesting if you...Kurt and I have had this discussion a number of times is that if you went to most companies, private sector companies, and asked them what's the mission of their 401(k) plan, they really wouldn't have an answer. And so, if you turn it around back when DB plans were more popular or more common, it was pretty easy to say what the purpose of a DB plan was, that it was designed to provide sustainable income over a lifetime for the individuals or participants in the plan. DC plans or 401(k) plans don't have that same sort of mission. They're essentially wealth accumulation, and that's kind of the end of it. We're not sure exactly how those benefits are going to be paid out, ultimately. And that, I think, in itself causes a lot of consternation for decision-makers in these plans at corporations. Then you take it down to the point I was making earlier that move away from the full-time employees of these plans and you find that there's very little participation in those plans. Yet, Target is an excellent example where, I think, 300,000 employees at Target and only one-third were eligible for the plan. Where those folks went to ultimately to create retirement savings for themselves is open to question. I think the likely answer is they didn't go anywhere. And so I think what it does then is sort of shifts things perhaps reasonably to the state level. But that's a really difficult transition, trying to get people that are working in a private sector to save through a state plan.

Kurt: But picking up on that, and Jeff and I talked about this too... Actually, Greg and I've talked about it as well, so one of the attractive parts about DB plans for the beneficiary has been the employer is actually taking care of the contribution. So, if you will, it was a forced savings at the end of the day. It was opaque to the beneficiary's perspective. So it's not like you got your paycheck and, "Oh, by the way, we're doing this contribution." But nevertheless, someone was making sure the contributions were happening. In the context of 401(k) plans, unless there's an auto-enrollment feature that people can opt-out of, the beneficiary is basically responsible for their own savings. So the corporation in some senses has shifted to...well, actually, every sense, has shifted two risks to the beneficiary. The first is making sure they save enough, which is, "Okay, you guys make sure of that," and then the second thing they've shifted is any risk in terms of what happens to investment returns. So it's basically off the hook.

So being a little bit cynical, I would say that the purpose of the DC plan from the corporate perspective is to shift as much of the risk away from the plan sponsor to the beneficiary. And the challenge, as an end kind of across the board, has been, well, what do people look to for advice in terms of building better portfolios and better investment solutions, at least to my opinion?

Jeff: And I'd just add on to that. One of the key risks that the companies have shifted through the DC plan is essentially the mortality risk

Kurt: Yes.

Jeff: And in some ways, that's the biggest issue. So even if someone's successful at building up a large nest egg for retirement, they reach 65 and they are left with this decision about what to do with it. People right at retirement age are probably the most vulnerable of all. They have really no future employment options. And they have, again, this nest egg that has to have some investment policy related to it. Is it going to be aggressively invested, not aggressively invested? And then there's a lot of drawdown information that they have to process. And the beauty of the DB plan is once you've arrived at that savings, at for savings at the end of the day, there was a clear distribution channel that took place while with a DC plan, the distribution channel is not there for most plans, and so that creates a tremendous risk for retirees.

Chris: And it does seem that it's hard enough for the average person to figure out where to put their money, but how to take your money out...

Jeff: Correct.

Chris: ...is almost impossible because one of the first questions they asked is when are you going to die?

Jeff: Exactly. That's right.

Chris: And that has implications for it. So I kind of want to shift gears a little bit and go with you, Kurt, first, but what can we learn from overseas because, you know, we live in this global economy. And you know, everybody's dealing with an aging population, and they don't have the gaps that we do.

Kurt: So I think there are examples of very well-run DB systems and well-run DC systems. The examples...I'll actually back up a second. So when you and I first talked, you asked me that question. I said, "Well, everybody hates their own system." So as someone looking from the outside of these systems, I would say it's great, but I will guarantee you, a Dutch person, an Australian person will tell me, "You've got to be kidding." So with that caveat, the Dutch have done a pretty good job at solving, I think, two or three big problems. First, they're very transparent in terms of the pricing of future benefits. So to make sure that there's enough money in the funds, they use a market interest rate to value how much money is on the benefit side, which stands in contrast to what's done in public funds in the U.S. and for a long time stood in contrast to what's done with corporate funds, although it's gotten better on that for the remaining corporate DB plans.

The second thing that's happened, from a governance perspective, is that they've taken all of the decision for setting allocation rules out of the hands of the actual funds, to a certain extent, and they put it in kind of an independent regulatory body, namely the Dutch Central Bank. So it's not that the Dutch Central Bank is immune from political pressure from funds themselves. They are. I mean, they get that. But nevertheless, it was kind of an independent, respected entity that says, "Right, you know, you need to discount your liabilities at this rate. It's an observable market rate or close to a zero market rate. And by the way, if you're underfunded, here's what you have to do in terms of taking risk in a portfolio." Then there's a third wrinkle, actually, which is when they did their last set of reforms, they introduced a notion of risksharing across generations. So what they did is, contingent on the level of funding, there's a rule that governs what happens to retirement benefits for retirees, and sometimes very possible variability, and then there's a rule that governs contributions from the people who are currently working.

The Australian system is principally a DC system. And there they set some...and I'm going back. This is a little bit ancient history point, but they've set much more transparent rules in terms of the contribution side. So, if you read about job postings, I mean, I'm sort of casual with the job postings, and said, "Okay, here's the salary. And by the way, here's the contribution to the superannuation trust or the DC plan." So there's transparency in terms of, "Here's what's going to be set aside. Here is the trust." The trust themselves have regulations in terms of aggregate fees. So it's unlikely that you're going to discover a lot of illiquid alternatives in the superannuation trust simply because of the fee requirement or the constraint on fees. And I know that from one of my old jobs where we started talking about private equity, hedge funds, and we're like, "We can't do that."

So there's kind of an interesting parallel too I was thinking about the other day. If you sort of say, "Well, okay, are there any examples in the U.S. context where we have variability and benefits or have clarity in terms of discounting future liabilities, where we have rules for government contributions and/or have rules on capital, so to make sure we're fully funded?" And the reality is there is. It's called the annuity business. So if the four of us decided we were going to open up an annuity business, we would wander on over to the Minnesota Commissioner of Insurance. We'd get our charter and recent, very clear rules that we'd have to follow to make sure that we were fully capitalized. Those rules are conditioned on how much risk we take with the assets. They're very clear rules on how we have to value the kind of annuities for the annuitants. So there are examples that seem to do it right from a governance perspective and a transparency perspective, even in the United States. It's just that for whatever reason, we haven't figured out how to apply those to the pension system.

Chris: And Greg, because with this, what you had mentioned, the follow-up question I wanted to ask you is so when you look at the states that are doing it better, you know, politicians, work countries, not that big a difference. So what is it that is enabling these other states to be more responsible?

Greg: I think we look at it through a lens of the values and the goals that we start with on the project. And those are fiscal sustainability, managing intergenerational equity, and providing a path to retirement security. And those sound like platitudes, but there are ideas and numbers behind those. But I think it also speaks to what a state like Wisconsin has done really well, been transparent and followed through on paying its bills every year, setting aside the right amount of money, just as the actuaries recommended. There are proactive policies in place to manage risk. So in circumstances where investment returns are lower than expected, both the state and the benefit levels get adjusted. And what I think is really important there is that everybody understands the expectation.

Chris: So this is about this transparency idea.

Greg: Yeah. And I think it also touches a little bit on some of the reforms we saw in the Dutch system, an incredibly well-run, well-funded system, but a lot of the reforms you just described were a function of a sense of broken trust among people, which is mind-boggling to many of us who know how well-funded that system is, where individuals felt like they were no longer getting inflation adjustments for a period of time and they had expected that. So even in perhaps the best-run pension system in the world, I think a number of decisions were made just based on that broken trust. And so getting back to it, I think what the relevant systems have done is set expectations and been transparent in how they're going to manage risk.

And the third piece doesn't get quite to the perfectly specific goal about how you define retirement security. But all the policies in place are designed not only to benefit the person who retires from state government and takes a good pension, but someone who might choose another career path still gets a substantial amount of savings that they can take with them. So it's really those three things of good governance and funding, effective and transparent risk management processes, and a clear understanding and expectation about what retirement security means for the workers.

Chris: So are you seeing those three things spreading? I mean, you know, are the best practices spreading?

Greg: That's a really good question. I think for the most part, no, not quite yet. And again, I think some of us in the field have been guilty of spending so much time wringing our hands over the really significant challenges in those other states like Kentucky, Illinois, and New Jersey, and haven't spent as much time as we should have been on those model systems. But I think there is more discussion. I think a number of states have...over the past year, a half dozen states have adopted formal stress testing risk management policies that were not in place before. Pew has done a lot of work on that, and there are a number of states including South Carolina, Milwaukee County, states or jurisdictions, I should say, that are thinking very clearly about how they can not become Wisconsin State retirement systems overnight, but take steps to get on the path to be one of those model systems. So there's progress, but I think we're just now giving the right level of attention to what that might mean.

Chris: And then, Jeff, what are your thoughts now? I mean, you know, all your time at Target, and thinking and you raised the issue about, you know, this income. I mean, yes, that's a wealth accumulation vehicle, but the idea is that you have an income to live off. So how are you thinking about the income aspect of this?

Jeff: Well, it's a crucial question I think, for anyone in the 401(k) plan. And to Kurt's point, so the ultimate transparency, as he said, is in insurance companies. And, ultimately, I think the 401(k) plans have to connect with the insurance companies in some fashion. So right now, I would say 95% to 99% of savers in a 401(k) plan have absolutely zero idea about how much their wealth accumulation might translate into lifetime income. And there's been some discussion in some of the recent legislative proposals about maybe requiring that, those sort of estimates to be produced. But right now, they aren't for reasons we can go into later.

So this notion of transparency really doesn't exist on the DC side. You can see a number. "I have $100,000 or something along those lines," but what does that mean in terms of spendable income? Ultimately, the way that an individual is going to be able to de-cumulate those assets is to buy an annuity. I mean, that's the safest way to do it. Let's put it that way. There are all sorts of withdrawal rates that, under the right conditions, produce lifetime income and make you live happily ever after. Each one of those, without a promise of an insurance company, is essentially a risk if something goes wrong, some sort of sequence risk as it's referred to. So I think it's required, ultimately, that 401(k) plans find some way to connect with the insurance companies to be able to deliver that lifetime income.

Chris: It's interesting. When you look at the Federal Reserve's latest numbers and their consumer finance survey that if you're in your mid-50s and you have a 401(k), or IRA, and IRA, the median is $135,000, which gives you about an annuity of $600 a month. So $135,000 sounds like a reasonable sum of money, right...

Jeff: That's right.

Chris: ...for most of us, but $600 a month to be living off of...

Jeff: Yes. And if people had that estimate, I think they might change their saving behavior.

Chris: Exactly. Exactly. So, Kurt, do you see... I mean, with the work that you've been doing, I mean, in this discussion, when we're talking about building a better retirement savings system, we need to be talking about two systems. There's a state and local, and that's the defined benefit plan system. And then there's the private sector and the nonprofit sector. And that's a defined contribution system because, you know, there's always that part of me that says, "Look, why can't we just have one system?"

Kurt: Well, I say that too. Jeff says that too. Greg, I haven't talked to him about it.

Jeff: But I guess I would respond to that too is that it's not clear to me in the long term that those two systems can exist side by side. If I'm a taxpayer, and especially if I'm in an underfunded state and I have my 401(k) plan, and I've been charged with accumulating assets that are going to sustain my retirement, and at the same time I'm asked to kick in more funds for a defined benefit plan that doesn't provide any retirement income for me at all, I don't know how I'm going to feel about that.

Chris: So how big a risk is this that the taxpayer ends up on the hook?

Greg: Well, I think that the risk for taxpayers is crowding out of spending for other core government services. And I mentioned this a little bit earlier. But if you go back 20 years, to 2000, on average public systems, believe it or not, we're about 100% funded based on the numbers they report. And since that time, we've seen this enormous disparity between the well-run and the poorly-run systems. And how that translates to taxpayers is in the well-run states that I mentioned before, pension costs might be 3% or 4% of available revenue, and that might be 15% to 20% in a state like Illinois or New Jersey. That's a staggering amount for anybody who has been close to government budgets, and that's really the impact to the average person.

Kurt: So there's a way to make that visible actually, which I experienced two days ago. So, you know, I was driving down Summit Avenue in St. Paul. And, you know, when I lived here, it was pretty nice. If I had my own car, [inaudible 00:28:01], I think I'm going to get the suspension fixed. That is literally the visible cost to taxpayers of underfunded pension plans. It's not that the pension obligations won't get paid necessarily, although in some cases if the municipality declares bankruptcy, they could not get paid. But it's that other service, to Greg's point, that there are visible things that the taxpayer simply won't get.

Chris: Jeff was at a conference, and I believe it was Roger Ferguson, head of now TIAA. I always say TIAA-CREF but now TIAA. And he made a very persuasive case for mandatory savings and that it's just not going to happen because the word is so toxic. But with your experience, what do you think about the case for mandatory?

Jeff: Well, I think the way you might try to cloak it is at least encourage, if not find some way to coerce, employers to engage in some sort of automatic enrollment. I mean, in the companies that it's done, it's extremely successful. I mean, the opt-out rate of automatic enrollment is single digit sort of numbers. And so, it may be unpalatable to say that I'm going to force people to save in a private sector sense. But it certainly would behoove us I think to try to encourage much more in way of auto features in plans because they have been so successful. Years ago, there was a lot of concern that somehow that employees would rebel against those and senior management was very paternalistic about how they viewed it. But now, the success rate of these is just unchallenged, and you can go down the list of different types of auto features that seemed to work. And so, I guess, before we got to the point where we had some law passed that said, "Well, we have to require this," I guess I'd be a little bit more forceful about getting private sector players to try these auto features.

Kurt: So I would actually add to that. If you think about the default options in 401(k) plans when it first got going, it was basically, "Here's the options, and good luck." And plenty of studies have suggested that when people are confronted with, you know, a large number of options that they don't know what to do that they take the default option. And the default option, for a long time, was either cash or company stock. So if you put everything in company stock, that's too much risk. If you put everything in cash, that's not enough risk. So the Pension Protection Act of 2006, but back up. There's one little wrinkle here. The reason I would set up that way was because corporations didn't want to run the legal risk of giving advice. So, in the Pension Protection Act of 2006, they made it clear that because targeted funds are rule-based, so the targeted funds basically changes the allocation between bonds and equities as the beneficiary ages, because it's rules-based, it didn't constitute advice. And, consequently, corporations could start offering it as the default option. So it's not that people said, "You have to put in the targeted fund." If you don't want to do it in the targeted fund then don't, but that's where you're going. It's the default option. So just a point about making the auto-enrollment the default option, we will auto-enroll you to take out, you know, X percent, and we'll match it another percent, or whatever the percentages are, as a default seems to me to be a way to get going on this without sort of saying, "You have to do that."

Chris: And one thing that's concerning me, you have, you know, companies like Target who will do, but, you know, I mean, when I started covering the 401(k) industry, I mean, you had companies that were charging 7%, 8% fees. And, you know, I know fees have come down considerably, but it's been an enormous transfer of wealth to Wall Street. So, I mean, can Wall Street be trusted to be managing our retirement savings?

Kurt: That hits close to home.

Chris: I realize that. That's why I was looking at you.

Kurt: Well, the short answer is no. I think, you know, I've actually talked with people in the business about it. It's like, you know, some management business is pretty creative, but it seems like the solution to every problem is you need to take more risk. And that's simply not the solution. But I think if they go back and ask, "Well, what incentives do money management firms face," because they're just simply responding to the incentives that they actually face. So can they be trusted to build good products? Yeah, conditioned on what they're asked to build and what the incentives that they have. So I'd kind of go back to the 401(k) committees at corporations and say, "Well, you guys have to give the right directives to the pension consultants and to the money management firms in terms of what you want. And if you want a low fee product, then you have to say, 'I want a low fee product that has risk characteristics that look like this.'"

Jeff: But if you go to well-run, large 401(k) plans, almost all have very low fees and low administrative costs. And it's the same before. It's a bit of a "Tale of Two Cities" if you happen to work for a company and if it's a large company and has any kind of staff that's working in their 401(k) plan administration, they'll have offered passive products that have management fees of just a few basis points. Their administrative costs have been brought down. The record-keeping services are extremely efficient. You can just run the long list of benefits that individuals get by having their money in those 401(k) plans. You hop down to the smaller plans, and they're, oftentimes not their fault at all. They're just forced in with they have limited resources. The complexity of running 401(k) plans is extremely high. The administrative costs are high. The investment options that they are able to get through their advisors are a relatively high product, oftentimes active management. And so, again, it's sort of sad that it seems that who employs you sort of determines your fate when it comes to retirement. And that's truly unfortunate.

Chris: And we celebrate small businesses.

Jeff: That's right.

Greg: Can I react, direct to a couple of comments here?

Chris: Yeah. Please.

Greg: You made the point before that people view mandatory savings as being a great idea, but it's never going to happen. And I think the easiest way I can describe that is it's generally thought to be un-American, right, to force people to do something they don't want to. And what Jeff and Kurt have been describing is all the body of research that shows when you have a default option, say, somebody has to save 10% and the employer will match it with 5%...and people have the ability to opt-out because that's American, right? They can make a choice. They usually stick with what the default is and that ends up having good effects.

A lot of what our research shows, and I think one of the problems, is that younger people, if you think about this from a supply and demand perspective, in their 20s, like many of us, just aren't thinking very much about retirement. And so, there isn't a push from the younger people that these companies are recruiting to sort of expect and demand a really well-run retirement system about what's important to them at that moment in time. I don't know how to solve that problem. All the polling that we do shows over and over again that people think about it very little in their 20s, start getting worried in their 30s, and then in their 40s are more proactive. But I guess what I'm saying is if the millennials could find those sort of policies to be cool, maybe we would have a chance to have it come in the demand side on that.

Jeff: But to the best of my knowledge, we don't see high dropout rates in young people, either in terms of...

Greg: No.

Jeff: ...when they're defaulted into an auto-enrollment system.

Chris: I mean, there was all this talk that millennials weren't saving, but it shows that they weren't getting jobs at companies that had the retirement savings plan. So, Jeff, I'm curious, does this lead to...we have devoted an enormous amount of resources to one transition, the transition to retirement. But if you think about our lives, we've had multiple transitions over a period of time. So in this sort of savings for life, are we overemphasizing the retirement years and not some of the other years? Jeff, do you know what I mean?

Jeff: Yeah. I think it's a great question. People have a lot of financial pressures at different points in their lives. And they're only able to deal with those pressures literally almost one at a time. And so, someone that's facing high credit card debt, that's the only thing that's probably on their mind.

Greg: Or student loans...

Jeff: Or student loans, not saving for retirement. And employers do themselves a disservice I think by being so retirement-centric. It's a situation I think where if they were a bit more flexible about the types of financial well-being benefits that they offered they might find a pretty high take-up. I always remember at Target, our credit union would offer mortgage or home buying sessions, trying to attract people that might be interested in taking out a mortgage. And those meetings were just packed, this time of the year especially, of course, because at that moment, those people, that was what was interesting to them. We would hold retirement planning sessions for people over 55. Those meetings were packed.

And so, I just think there's different times in people's lives when they're willing to focus on particular financial problems. And I think companies, employers have to be more willing to address the financial lifecycle position of their employees. And they could do a lot better by helping them relieve financial stress and not leaving them trying to solve all these other problems besides just retirement. The other comment I think I'd make with respect to that is that employers spend a tremendous amount of money on, say, physical well-being programs. I mean, it was always amazing to me at Target that we would spend millions of dollars a year trying to get people to, you know, lower their A1C, you know, blood test...

Chris: Wear a FitBit or...

Jeff: Right. I mean, all these things, and sadly, most of the time, none of that worked. I mean, you can go back and do all the ROI tests you want and you're gonna show that those worked at all. And yet, if I tried to scoop up $10,000 to get some sort of retirement planning session going, an additional one or something like that, they'd just say, "Well, that's really expensive, Jeff. We don't want to do something like that." Again, that just shows the inflexibility I think of a lot of employers about how they deal with these financial well-being issues.

Chris: And also, you know, in my experience, you know, employers have given actually a lot of good information over the years about retirement savings, and a retirement savings plan, and what are your choices. And it's usually good charts, easy to read, well-written, fairly clear. But there seems to be that there's a real limit to what education can do when you're thinking about retirement savings. I think that maybe even true with a DB plan and particularly with DC plans. But what about education, Kurt?

Kurt: Yeah. I thought that you might ask that. And this gets, I think, partly to Jeff's point. So one of the big issues that I see is basically the level of financial literacy. So there are a number of states that have initiated programs to make financial literacy part of the core curriculum in schools. To me, that would be like a good start. So people graduate from high school with some notion of kind of basic things like, you know, the time value of money, etc, etc. Does that solve everything? No. But that would be kind of a good start. But I think it also gets back to...and, again, it's something that Jeff and I talked about as well, which is, "Okay, well, how do you get good, solid advice for people," because you're right. There's a lot of educational material. But historically, a lot of that material has been very, very hard for people to digest. So, you know, someone who's quite close to me came home one day and said, "You know, would you help me with this asset allocation thing?" They're asking me, "How do I figure out my risk tolerance?" So I looked and I said, "You know, I gotta tell you, I do this stuff for a living. And there's no way in hell I can figure out how to answer these questions."

Chris: That's really discouraging.

Kurt: Yeah. It is. And, you know, I think ultimately, if we go back to the notion that that is part of the social safety net, if we want to minimize the number of people who are eating cat food in retirement, then that, to me, basically says we have to think more about default kind of options.

Greg: And these systems have to be able to work in spite of the participants.

Together: Yeah.

Chris: Greg.

Greg: Building on that and going back to a conversation we had before the conference, I think one of the challenges with financial literacy is how do you keep it simple. And we all understand that that's a problem. I'm recalling, beforehand, we were talking about maybe the single best decision you can make is to postpone taking Social Security to the maximum age, right? The value you get from that over the rest of your lifetime by far exceeds any other thing you can do. I don't know that there's just a simple number one rule of thumb that everybody already understands that says, "I might retire. I'm 65. I need to have a plan to bridge the gap between then and taking Social Security at 72." The financial benefit of that is enormous. We were just describing there's nothing else you can do that's better. And I don't know that those statements that you get that tell you when you're going to take it really clicks with people. So that's just a reaction of the conversation about how complicated this is and could we, in the field, do a better job of trying to distill a couple of these things down to the two or three golden rules? I think that might have the biggest impact. I'm curious what your reaction to that might be, Kurt.

Kurt: So we were talking about this too. By the way, we all worked on this before, so we practiced. So, you know, I told these guys earlier, I'd looked...and it just kind of gets to kind of the education piece, so I was kind of curious about target-date funds this afternoon. I did what everybody does. I went to the...I think it's called the World Wide Web and did a search for target-date funds.

Jeff: It's got those tubes.

Kurt: Yeah. And, of course, you can trust everything you get there. So I found two articles in something called Marketwatch. And one basically, citing some research from people I know, said target-date funds are a terrible option. And then the other one said, "Oh, target-date funds are great." So I know how to read that stuff, and I know how to kind of parse it out. At least I think I do. But I go back to your average plan parts as someone who reads that. What are they gonna do? And it's just not obvious to me that a system where so much of the choice is placed on the beneficiaries without starting off with some opt-out option is really a good path.

Jeff: And I'll just make one other comment to that. I've always said that the most powerful force in the retirement universe is inertia. And so in 401(k) plans, you basically make people their own chief investment officers. And in that situation, inertia works against the participant, without a doubt. And the default sort of settings that you could put into plans, again, that had been proven immensely popular, make inertia work for people. And so, all the rules that you can think that might be productive I think are potential default settings. Now, I think we may...and a lot of large companies already picked the low hanging fruit, auto-enrollment, auto-escalation where you increase their contribution each year by a certain percentage, those have been proven really productive. I think you start to get into more invasive and more controversial sort of auto features. You could...

There have been discussions of what are called a stretch match where, you know, Target matches dollar for dollar the first 5% of pay where maybe you, you know, match 50 cents on the dollar on the first 10% of pay or something along those lines. So the net cost of the company, if everybody participated, wouldn't be any more, but we'd get more savings. You know, maybe you force people into annuity-type products late in their career. Maybe you do backsweeps is what it's referred to. All of the auto-enrollment usually is just looking forward. You join a company and we're going to auto-enroll you. We don't go back and see, "Hey, you know, Bob was here five years ago and he never signed up. Let's put him in." That's not typical. So I mean, there's just a lot of more auto features that you put in but some of them can get kind of pushy.

Chris: I mean, and the other thing is to spread those features that you're talking about that the big companies have said, "Okay, this is what works/" Okay. How do you spread it to the places that have not embraced that?

Jeff: That's right. How do you get best practices to move? Right.

Kurt: And actually, the inertia thing you brought up, which is something else I've been thinking about. So, you know, a friend of mine, a Ph.D. economist, we were talking about, you know, what are we doing with our 401(k) money. Well, we each had multiple employers. We each had money in the 401(k) plans from those employers. I mean, that makes no sense. But inertia basically says, "Well, I gotta worry about this job so I'm not going to worry about moving the money into one big fund until I, you know, have, you know, manage to have extra time on my hands." And then you spend the time and energy to figure, "Okay, I gotta call this person, and this person, and this person." So one clear benefit it would seem to me would be to figure out, "Well, how do you automatically get that stuff to happen?"

Jeff: Auto affordability.

Kurt: Yeah. Exactly. We talk about DC plans as the big benefit being affordability, which is great. But inertia basically, again, works against you.

Jeff: Right. That's right.

Chris: So what I like to do is open up to questions, and we have only two rules. So the first rule is if you would identify yourself, that'd be nice. You don't have to. But the rule is you have to ask a question. I will interrupt any nascent or beginning speeches. And so I will apologize. I'm not trying to be rude, but I'd like to get through as many questions as possible. And just so you know, we have two students here who have the microphone. So, if you want to get their attention, they'll bring the microphone down to you. And why don't we start with this gentleman down here and mainly because he was in my eyesight? So, please?

Larry: Hi, I'm Larry Russer [SP]. And I hope you'll allow me a little bit of a statement along with my question. I do have a couple of questions. I commend you for addressing a lot of the problems that attend this retirement issue and pensions. I'd like to hear more of you addressing market risk and the accessibility of principal. You talk about education, saving enough. You have no notion of what saving enough is. When you retire under a 401(k) plan, you are not only a victim of your own perhaps faulty education, but you're a complete victim of the markets. If I take 4% out every year, and I take that out at the peak of a market where perhaps we are now, and the market goes down and I see it go down 25%, 50%, what shall I do? I not only have my principal compromise. I have a declining balance that I was counting on drawing in a 401(k) plan...

Chris: Okay. Let's go with that question now. So, Kurt, since you're market risk.

Kurt: So that's a great question. So every pension system has to solve four problems. Well, one of them we talked about, which is the savings problem or the contribution problem. One of them is the investment problem, so how do you put the money to work? One of them is when you retire, okay, what's the projected income and how do you minimize the risk in that? And then the third or the final one, actually, is how do you minimize risk in the asset accumulation phase? So in other words, if you could hedge the risk and asset accumulation as you got close to retirement, would you do it? And it turns out that there's research available on all of those about how to set things up to solve those problems. So there's research that's embedded in some...well, it's a byproduct weirdly enough of some of the target-date fund research. And you kind of talked about it in terms of the auto enrollments, that show about how do you solve the savings problem. This is for people who are currently working.

There's research that we've done that talks about, "Well, is it a good idea to hedge risk as you get closer to retirement?" And the answer is yes. And there are annuity products out there to kind of minimize the volatility in retirement income. Now, there's also research that suggests they're not particularly inexpensive, but those things are actually out there. So there is work available, it's just that...and this is I think the point that we've all sort of stressed, especially Greg. It's like, well, how do you make it accessible to people? And I would say, as an industry, this gets back to the question, can you trust Wall Street? We have not really covered ourselves in glory in terms of making this stuff accessible to people. It's accessible. There's like a pyramid of people who can kind of understand.

Chris: Up here.

Man: Thank you for this presentation. Public pensions, underfunded public pensions, I would think the difference among the states is really the bargaining power of the public employees and that in South Dakota, the bargaining power of the public employees is probably small. In New Jersey, the bargaining power of the public employees is probably strong. And New Jersey, with respect to that state, that's a wealthy state, probably along with Connecticut, the first or second highest income level throughout the nation in a state. And so those employees, those public employees, they're not at risk. That state is not going to default.

Chris: Greg?

Greg: Well, I think the question is getting to what the impact of labor union negotiations might have. And it's a fair question, and I'll be very candid. I'm going to talk around it a little bit. And just to point out that up until very recently, a state like Wisconsin had much more bargaining power than it currently does. And in addition to that, it's more difficult than you might think to point to exactly the different causal factors that lead to this. So two states, Tennessee and Kentucky, in essentially the same region, are literally at the top and the bottom of the scale when we do our fiscal grades for all the decisions that have been made.

So I think it's a fair question around what have the causes of the different circumstances have been. And here, again, I think we're now trying to place more focus on what are the habits of highly successful retirement systems. And this is why we emphasize Wisconsin, Tennessee, and other states that have done things right. Even with some of their neighboring states. Illinois and Kentucky, for example, have done almost everything else wrong. So I understand the genesis of the question, but here, again, I think we're now focused on can we shift the attention to the solutions, which I think is a better way to help some of these states get out of the problems they've created for themselves.

Chris: Him and then you.

Alex: Hi, I'm Alex and I'm an undergrad economics major here at the U. I was particularly interested in what your thoughts are on the general trend away from defined benefit to defined contribution, and whether that's likely to continue because in the private sector, it seems like it's almost like an inevitable shift away from DB to DC, just basically incentives for corporates alone. Do you see, you know, the public sector in the United States shifting in one direction or the other? Are we going to have like a centralized sort of, you know, something more formal than a 401(k), which I understand sort of grew from a paragraph in the Tax Law, to something sort of more formal that sort of formalizes the idea of, you know, you saving for your own retirement under the system created by, you know, the government, something akin to sort of, you know, the Affordable Care Act for healthcare?

Chris: Go ahead.

Greg: Well, to start on that, I think we'd all agree that the defined benefit in the private sector is almost gone at this point, but it's still the principal source of retirement savings in the public sector. And I'll defer to the both of you, but I think we'd also might all agree that you have the savings problem, the investment problem, and then the decumulation problem. And really, whatever the system might be, and I think some of the debates around DB, DC can be not as productive as we might like, I think, really just shifting back to the right level of savings, how the money is invested, and whether there's a plan for retirement, and then that overarching idea of how do you manage risk within that context is a more principle-based approach I think that's getting a lot more attention now.

Kurt: I would agree. So I think Greg's point is, okay, DB, DC are kind of means to an end. They're implementation vehicles to...they're ways of implementing these tradeoffs. So I think his point, which I agree with is, okay, why don't we spend time thinking about the tradeoffs and then we can go the next step and figure out, well, how do we implement that in either a DB system or a DC system? Because the reality is you could have a DB-like system, where there's variability in the actual benefit, and it's still a centralized fund with centralized contributions. It's the same thing. You're getting the variability and the benefit that you get from a pure DC-type system where the beneficiary has to basically self-insure during retirement.

Jeff: And I guess this is a bit of a tangent, but I'd say I'm not so sad to see the DB system go in the private sector. In principle, it made tremendous sense. And if you got to the end of the day, you got to age 65, and you had stayed at that company and accumulated your benefit, you were a pretty happy camper. But there were so many individuals that didn't benefit from that system. I think even at its heyday, you know, something like 35% or 40% of the population was covered by these plans. And those benefits were, in many cases, very skimpy because if you have employers, the DB benefit is diminished severely.

And so, there's no portability service that goes along with most DB plans. And it was difficult to transfer the accumulated benefit to anyone else, maybe impossible. And so as a result, I don't think it worked well for most Americans. Again, if you want to stay with one employer for a long period of time, and you have an employer that's willing to offer a rich benefit, great, but that isn't the typical American.

Chris: And, Greg, I was looking at a number, and I don't know how accurate it was, but that we always have this notion that in state and local governments, you stay with your employer for a longer period of time. Yet, there's actually a fair amount of turnover back and forth going from the government sector to the private sector. And it was something like average tenure five and a half years for the private sector. Average tenure is four and a half years or four years. I can't exactly remember the numbers. But struck me is that, okay, so you have a system that's set up perhaps for a workforce that is now more mobile than our image.

Greg: Well, to your point, what the numbers show time and again is that in the public sector, the majority of people will leave within the first 10 years of employment. Over time, I think it gets a little bit stickier. But the way that we've looked at it, and I think addressing the critique you mad,e which I think is totally accurate now, is through two different measures, one of which is the expected replacement income for the career worker for which these systems are generally thought to be designed, but we're also measuring retirement savings for everybody else. And this, I keep going back to the states that have done a really good job, and it turns out that not only have Wisconsin and Tennessee paid their bills and put in risk management policies, but they're among the very few states that have a default savings rate of 12% or more, which, even then isn't quite enough. But they've done that by stepping away from DB, DC and thinking about what those solutions are.

So, in Wisconsin, for example, there's a very solid pension for a career worker, but for someone who leaves, they have a money purchase plan that allows them to take not only the money that they've been contributing from their paycheck, but also what the employer has been contributing, which is not always the case. So I think there's a way to hold those thoughts, both of those thoughts, in your mind at the same time and design a system that achieves both goals.

Jeff: Maybe if I could throw in just one other comment related to that. It's sort of interesting in the U.S. system, the DB system, that cash balance plans were very popular in the early 2000s. And, at one point, it seemed like maybe they would become the dominant form of plan. And they sort of fizzled. But yet, they had the potential to do exactly what Greg is saying. I mean, so you had a cash benefit that could be converted into an annuity or it could be carried along as just a lump sum that you could take out. And so, if we had gone one direction, maybe we could have converted that into affordable system and maybe port service along. You know, I don't know how exactly it would have been done, but it would have been an interesting discussion. But I think 2000 and the Great Recession interceded and just blew up a lot of pension plans. And the employers, there was already a trend away from the DB plan and it just made it easy to get out.

Chris: I also got a sense that there was a lack of trust in the transition.

Jeff: That's true.

Chris: Who's getting ripped off here?

Greg: I think that's an understatement. I think candidly speaking, how that transition was handled in certain cases is not something that one should be proud of.

Morgan: My name is Morgan Fleming. This conclave or gathering together is a wonderful thing. This is to our host. I have a bias. I think that Jack Bogle created more money for more people in America than any individual except maybe for Social Security as a group, one. But this thing about a fiduciary and a trust if it's defined benefit of whatever it is having a fiduciary moat around it and that trust doesn't support the interest of the individual members to anybody for any damn thing. So the question is this unfortunate thing about moving the fiduciary test away from traders. This now happened with the Federales. Could our hosts comment on that, please?

Kurt: So, I guess your question is by moving all of the fiduciary responsibility to the beneficiary, did that...?

Morgan: No.

Kurt: No? Okay.

Morgan: If our trend is South Dakota, the pension plan is almost 100% funded because they make the contribution. God bless Ed Burke all these 50 years of finance committee in Chicago. They didn't make the contribution so they're in the commode. But you know all of that. All I'm saying is the traders, the 25 biggest big hedge fund guys last year in America made $850 million average. I'm just saying if you're a trader actually handling the money to all of these transactions, the fiduciary trust that you are paternalistic for the customer instead of the trade, the thing that the Obama administration had said to be the test of the standard for brokers has now kinda gone away it seems. Can you comment on that?

Kurt: Okay. So I actually liked that fiduciary rule. I thought it was a good thing. My friends in the advice business hated it, which made me think, "Okay, this is a good thing." So, I kind of agree with your point, which basically just puts more of the responsibility back on the individual and kind of along the same thing we talked about a lot, which is, "Okay, are people equipped to actually do that?" The answer is probably not. So, you know, I wish Gary Cohen hadn't done it, and the kind of his explanations...

Jeff: Well, maybe if I could just make one comment related to that too, it's to me, that's just one more message of why we want to keep money inside the 401(k) plans themselves and not let them leak out. So the fiduciary rule is alive and well in a 401(k) plan. I mean, the ERISA laws are extremely stringent about how those monies are handled in a 401(k). But once you leave an employer, you can take your money away, and the various organizations, I won't name them, are happy to vacuum up all that money into IRAs, and at that point, now we've lost some of that fiduciary protection. And so I urge less leakage out of 401(k) plans.

Kurt: Yeah, but there's something I want to add to that. So, to be clear, it's not the case that...there's only a small number of individual investors who are going to have access to hedge funds and private equity partnerships anyway because they're actual rules that people have to follow to get access. I mean, I hate to put it this way, but the average target worker is not going to be getting a call from Goldman, or Morgan Stanley.

Jeff: No, but they maybe will get a call from...and I'm not blaming Fidelity or anything, but they'll go...when they leave the company, they'll be encouraged to move their money out of the 401(k) plan into an IRA. And at that point, then they're fair game for anybody that wants to provide them with advice.

Kurt: Yes. I agree. I agree.

Chris: One of the things with the fiduciary rule, this theme of simplicity that has emerged. I mean, there's so many different terms out there, you know, who's what. If advisors are all adhering to the fiduciary rule, at least that's the baseline. Up here? Here.

Man 2: I have a question about the model best practice states. If they had to operate under the same valuation, amortization, and discounting rules as corporate DB plans do, would they still look as good? And if not, is that a cause for concern?

Greg: I think what you're touching on is what we've referred to in public pensions as the great discount rate debate, is whether the assumptions that public plans use which are considered less or are less conservative than what corporate plans have to file, for example, are problematic. I think the mathematical question is, of course, if public plans had to apply less risky discount rates, so they calculated the liabilities, the numbers would not look as good. But in this case, I would go back to this idea of public pension stress testing, which is something our project has spent a lot of time on. And we've done in-depth analysis of 20 jurisdictions now. We've helped pass laws in six states. And what that analysis does is rather than debating whether the assumptions are correct, is it runs what-if scenarios to see whether Wisconsin, or North Carolina, New Jersey, Illinois can stand up to the next recession.

And so I think the short answer is in the cases of the model states because they have effective risk management processes in place, and because their funding levels, however you calculate them, are relatively very strong, the results are positive. And you can even look back at that historically where Wisconsin, South Dakota, Tennessee have had 90% to 100% funded ratios for 20 years, two decades and two recessions, and have also kept cost very stable, about 8% of payroll, maybe 4% of revenue. It's a fair question, and so this is where we've been really shifting focus to, let's not debate the assumptions. Let's put public information out there to stress test the assumptions and answer the question, "Well, what happens if we're wrong?" And I think the short answer is those model states still kind of stand up to that test. And so, I think there's still validity in looking at those strong practices.

Kurt: So Greg, what I think I heard you say that those states also committed to getting close to the required contributions, right? So you didn't see the same kind of variability and then kicking in money [inaudible 01:07:16].

Greg: Yeah. They make the full contributions. They actually build in a margin of safety on their discount rates. Those contributions are made, assuming that the investments may underperform their expectations. And then they have policies in place that will adjust post-retirement inflation benefits, increase employee contributions to offset some of those costs. So it's a perfectly fair accounting question. And I think but if you run the analysis, they've got these different shock absorbers in place that are designed specifically to address those concerns.

Kurt: And the reason I bring up the contribution, sort of harp on this, because I want to get to more questions, but the reason that's an important question that gets to Mark's question is that as states don't make the required contributions, the incentive to actually not change the discount rate goes massively up. So I think you can make a reasonable argument that one of the big contributors to the pension funding crisis with public funds is they didn't hit the required contributions in the aggregate.

Greg: I think that's both the simplest and most accurate explanation is that over years and decades, the states that didn't make the required contributions had problems that in a sense risk-taking in the form of higher targeted rates of return and portfolios. And somebody once described that as eat more, lose weight.

Chris: I've been trying that one for a long time.

Greg: It's a spot-on question, but I think it really comes back to the simple idea of paying your bills and having policies in place that account for uncertainty. And the model states still stand up to those tests.

Tom: Hi, I'm Tom Elson. I just have a really simple question because we've talked a lot about fairly complex concepts tonight, and thank you guys for doing all of that. But as it relates to most individuals, most people in this country, you've talked a little bit about financial literacy, Jeff, especially you, which is great, but isn't it true that the vast majority of this equation, the savings rate in the investment plan for most individuals can be communicated in a public service announcement, in a 15-second public service announcement. And I'm very curious to hear from all of you guys as to why you think that's not done. Why is this retirement business so unknowable, so complex when it's not? It's just not.

Jeff: It's a great question. Well, I guess I'd want to parse that out a bit more though. Nothing's simple. Why don't people lose weight and live healthier lifestyles? I mean, I don't know. Why don't people save more? The discounting of the future is a pretty powerful thing. So I think it's not a simple question about whether you could get people to save more but through some public service announcement. It's not like buying war bonds or something like that. So I just want to be careful about how we treat the problem. I mean, we're talking about a 40-year set of decisions that when you're 20 don't look very serious. And then when you're 65, they look really serious.

And trying to get people to put themselves in the shoes of a 65-year-old when they're 20 is...I don't know. I have children that are 30 years old. And I berate them about making sure that they're saving enough for retirement and they get tired of listening to me all the time. I just don't think there's an easy answer to that. And that's why you heard me say I'm a big fan of a lot of the auto features because I think you just have to force people to do things in subtle ways. Americans don't take very well to laws that require you to do something so we have to be a little bit smarter about it, I guess, more subtle.

Jay: Hi, Jay Stoffel. And thanks for the discussion. And sort of related to the topic, I've been with the public pension community for over 30 years in Minnesota. So I've heard some good ideas of things that we could consider doing differently while trying to maintain a system that provides the best retirement security for and primarily with the teacher's plan. But I guess I would encourage you folks, the panel, and then for the audience to know that in Minnesota we have a pretty successful system. And I agree with South Dakota, Tennessee, and Wisconsin having some very successful and effective ways of running the business. But in Minnesota, we have a very responsive legislature. We have stakeholders who are engaged. And for the last 15 years, to make our system sustainable, we've been cutting benefits for 15 years. We've been raising contributions for 15 years. We've taken a look at our assumptions on a regular basis, working with our actuaries and all of that. And in 2018, some real landmark legislation was passed, and it's kind of a model around the country of what happened, maybe not how it happened. Everything we do is in legislation. So legislation, as you've heard, is like making sausage, so it's a very messy system or process. It took us three years to get it done. But it was very successful, a big landmark year, 2018, in Minnesota. I think the proof in the pudding to that comment that I just made was...

Chris: But is there a question?

Jay: Yeah, well, the rating agencies, and then two of the three rating agencies look at pension liabilities around the country and then formulate the ratings. And two out of the three agencies have given us triple-A ratings in part because of our responsibility with dealing with pension debt. So I guess my comment is have you looked at Minnesota in formulating your opinions about best run, best practices? Not that we can't do more. There's more that we can do and should do, but I'd encourage you to take a look at Minnesota practice and history.

Greg: We have looked at Minnesota. We're familiar with the very hard-fought and hard-earned reforms that were passed last year. I think the question for the state is, is there more work to be done in particular for preparing for the next economic downturn? So some of the analysis I think I'd encourage people in the state to look at is let's understand the positive impact of some of the steps that you just referenced, but let's also consider what may happen and what more we may need to do if there's an economic downturn. And that's an informed opinion certainly with respect to the good work that's been done. And I think of a state like Colorado as a good example of a state that still has challenges, but went about it in such a way that they set their goals for the reform. And they measured it based on one of these risk analyses, these downside analyses. So I think that would be another step for the state to consider.

Kurt: I actually agree with that. So, we have looked at Minnesota. And to kind of echo Greg's point, there have been some good things that I think I would encourage you to kind of keep thinking about, which is how to get more regularity to the variability in the benefits. So rather than sort of making it a piecemeal, "Okay, oh, for Christ's sake, we have another crisis, and now we have to deal with this," just getting some sort of regularity in the conversation about what happens to benefits. In particular, in the context of Greg's suggestion on the stress tests, I think it's probably worth doing, considering not just the impact of the stress test on the asset portfolio, but also what happens to the contribution rates because if we do have another downturn, it's not, "This is good or bad for asset class returns." Well, bonds will do great, but most of the portfolio actually isn't in bonds. Most of them are in sort of portfolios and risky assets, and they're just not going to do very well. So there is the first negative thing.

And then the second negative thing is, well, what happens to wage growth. And that's the source of contributions. So there's a real reason I think, from a budgetary perspective, to look at the risks to the overall state budget and the pension plan and what happens if there are adverse economic circumstances. I'd say that's the second thing I'd suggest. And the third thing is, you know, I think it's probably worth spending, you know, a reasonable amount of time thinking through well, what happens if you keep dropping the target rate of return, separating the target rate of return from the discount rate on the liabilities as corporate plans do and as the Dutch plans do? And just think about what happens if that numbers a little bit lower. It clearly means pressure on contributions. But you know what? If you want to secure a system the money has to get paid sometime. So those are the three things I'd kind of point to, which I think build actually on the stuff you've already done. So it's not like it's...what would you call it? It's not like an alien thing. It's just saying, "Well, how do you think we're doing," and go to the next step.

Chris: So you get the second to the last question, and I get the last question.

Dan: My name is Dan Fisher. I've been in the retirement plan industry now for over 20 years. I was wondering if you could comment on something I've seen recently in the industry is the trend towards kind of changing the focus of statements and websites away from that, "Here's how much money you have," a dollar amount, versus changing it to, you know, that landing screen on the website or on the statement where they're actually seeing, "Here's how much you would have in retirement," a monthly income format. Is that catching on? Is it helping?

Jeff: It's not catching on, and largely it's due to employer's concerns about being sued. The concern is that there's some sort of implied promise that goes on by putting that on the screen. I mean, I think it's largely, you know, a concern that is fiction, but all you have to do is get sued once on that. And so, there's no incentive for employers to do it. Like I said, I believe in the current legislation that's in Congress. There is some language in there that addresses that whole make, you know, encouraging employers to make a forecast, but maybe requiring them to make a forecast of what their account balances would generate. But, for now, there's very little progress on that.

Kurt: Which is kind of ironic because there was a big deal about having banks do stress tests according to Federal Reserve scenarios. So why we don't have the same kind of setup for pension systems is...well, I think the phrase I'm going to use is mind-boggling.

Chris: So the last question. We're out of time. But the same question to each of you. As people are leaving the amphitheater here, what do you want them to be thinking about? What's the one thing that as they're walking out and they're having their conversations, what do you want them to be thinking about? Greg.

Greg: Based on this conversation?

Chris: Yes.

Greg: There are solutions, whether that be thinking about a model retirement system in the public sector or the public service announcement that would talk about the two or three things that almost everybody who's thought about this carefully agrees upon, is spending time thinking about how to articulate that. And then the follow on to that is how can we keep those messages simple?

Jeff: I guess I'd summarize it by asking people to think that there's three parts to a successful lifetime savings program. One is to put the money away, the second is to invest it, and the third is to pull it out in some sustainable way. And so, every system that deals with this, whether it's yourself, or a state, or a DB pension plan on a corporation has to deal with those issues. And so the question is how do you make sure that...Kurt mentioned early on about transparency. How do you make sure that there's transparency and understanding of each stage of that and try to encourage people and organizations to address those three key features?

Kurt: These guys stole my two. But I'm going to pick up on the transparency thing. Look, I think people that work for corporations should be kind of asking about the auto-enrollment features. People who work for any organization should be asking, "Okay, what are the auto-enrollment features? Are there auto enrollment features?" And even if it's illegal or apparently illegal to generate a report that says, "Here's how much retirement income you have," nonetheless, people should figure out how to do that calculation. So those are two things I'd kind of point to. Ask for the auto enrollments and then figure out, well, what this mean for actual retirement income.

Chris: Well, thank you very much, and thank you.

Ellen McGrattan: And I want to thank the panelists for a stimulating conversation. I also want to thank the co-sponsors of tonight's panel, Arnold Ventures and Litigation Analytics. I want to point out that we have quite a few board members of the Heller-Hurwicz with us tonight. Rae Carter, Armeane Choksi, Ed Foster, Carla Haugen, Van Hawn, Zenas Hutcheson, Jose Peris, Norm Rickeman, Lowell Schwab, and Kurt Winkelmann. And I thank them very much for always helping us both on the panel and in guiding the institute.

And lastly, I want to point out, we're going to have refreshments in the atrium. But I want to point out that there will be posters of our undergraduates. To some of our undergraduate students who work with the faculty members here at the Department of Economics, they are going to show off some of their work through some posters. Please have a look. It would be really nice to give them some feedback. I want to thank again our panelists and thank the audience for their participation.