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Sustainable Retirement Solutions

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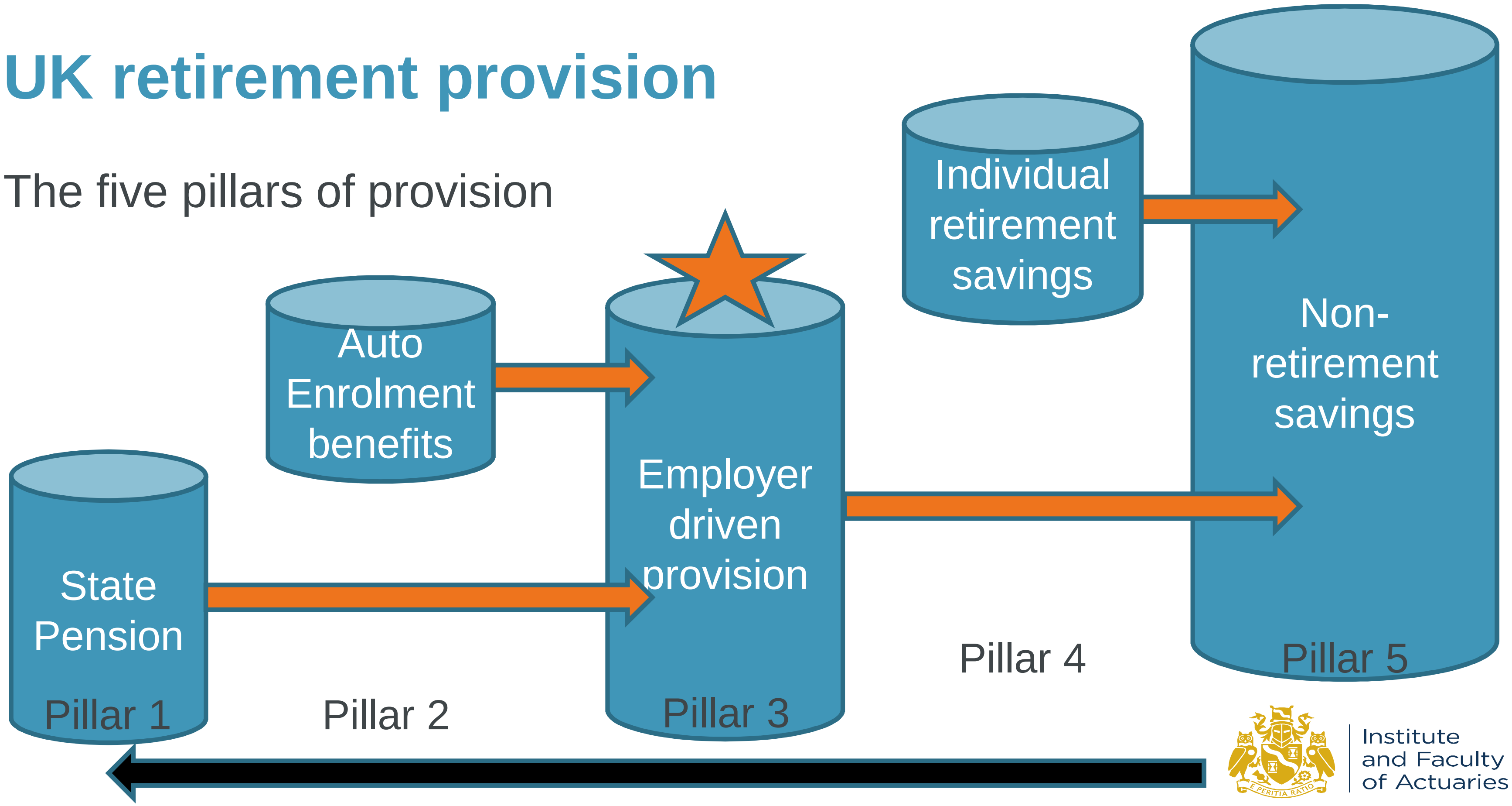
Viable retirement solutions for the long-run:

Are there any sustainable retirement solutions out there?

Richards, Hurd & Clacher (2016)

UK retirement provision

The five pillars of provision



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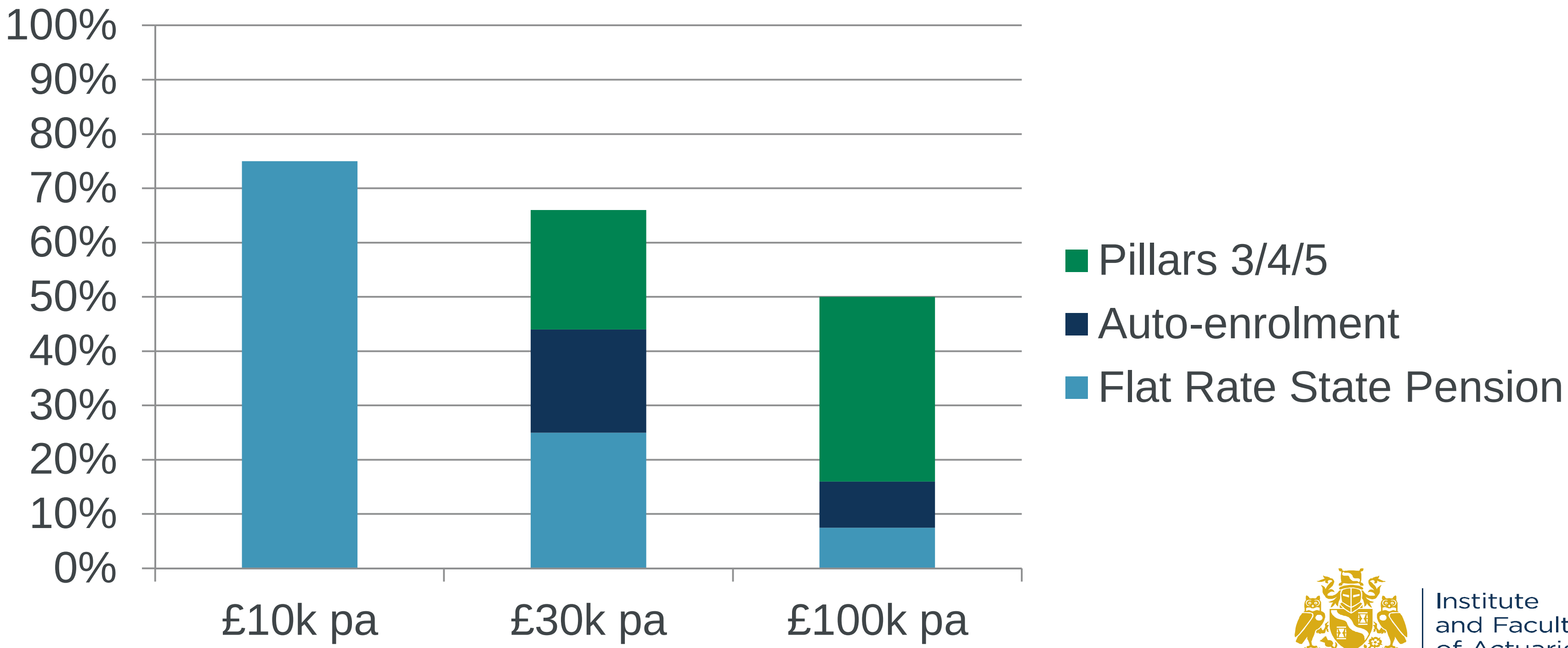
UK retirement provision



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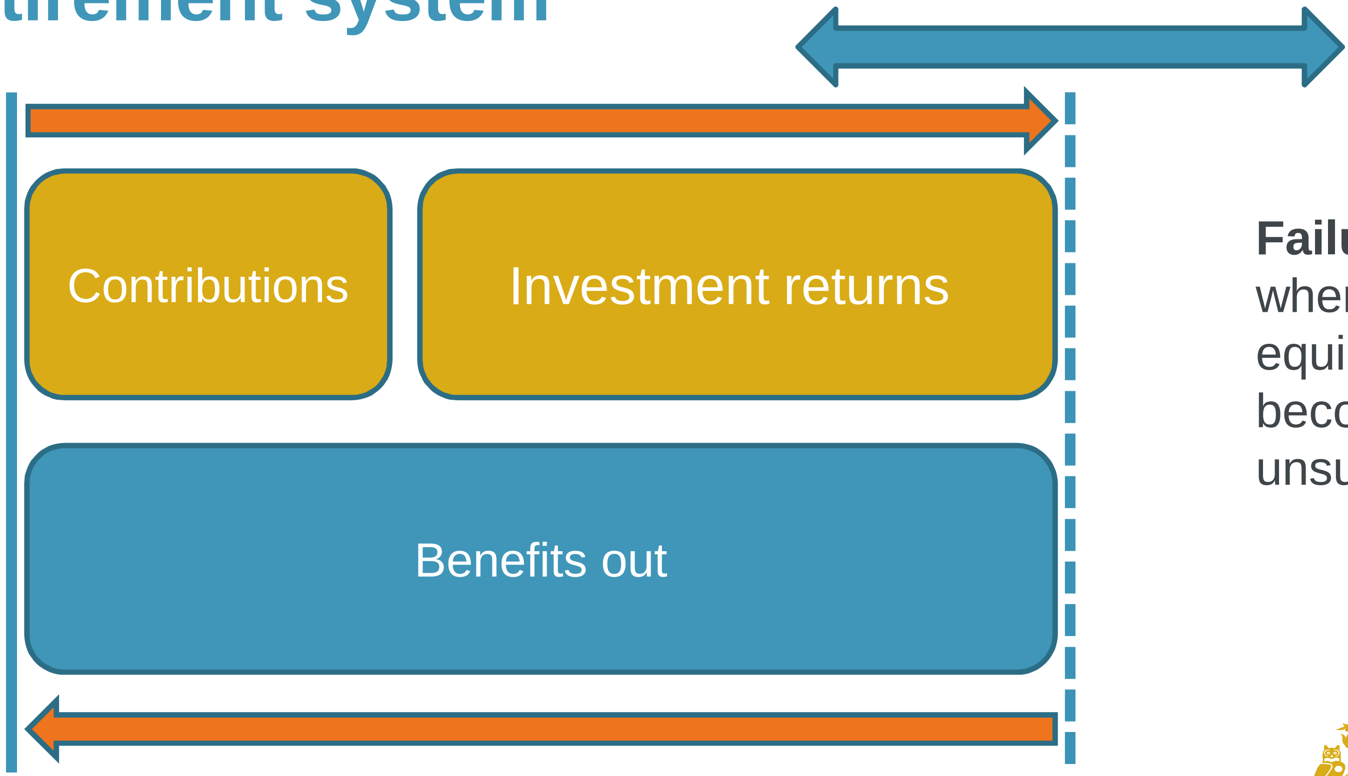
Retirement system



Failure occurs when the equilibrium becomes unsustainable

Sustainability

- Terms of reference for retirement vehicle
  - Wealth distribution
  - Risk sharing

  - Risk mitigation

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Initial construction of model

- Structure of retirement systems
  - $A_{t+1} = A_t + C_t - B_t * (1+i_t)$
  - $L_{t+1} = B_t * a_b – C_t * a_c$
- General structural decisions
  - Collective vs individual
  - Membership
  - Demographic experience
  - Inflation allowance

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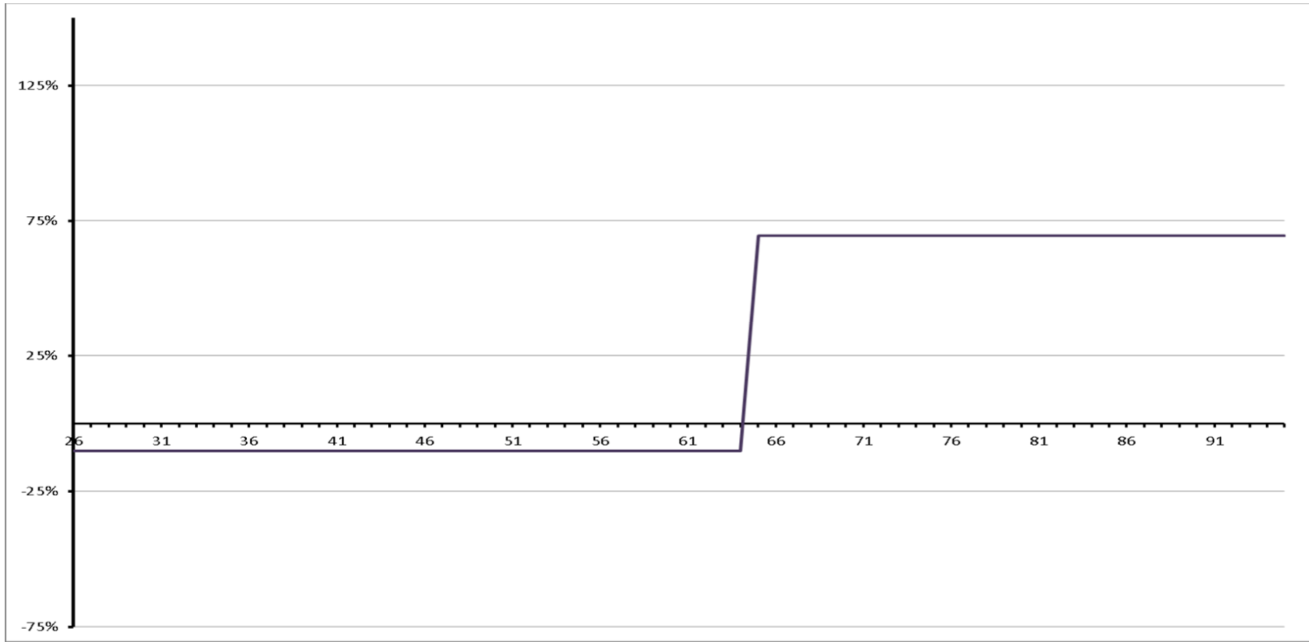
Net cashflows – complete market, ‘perfect’ world



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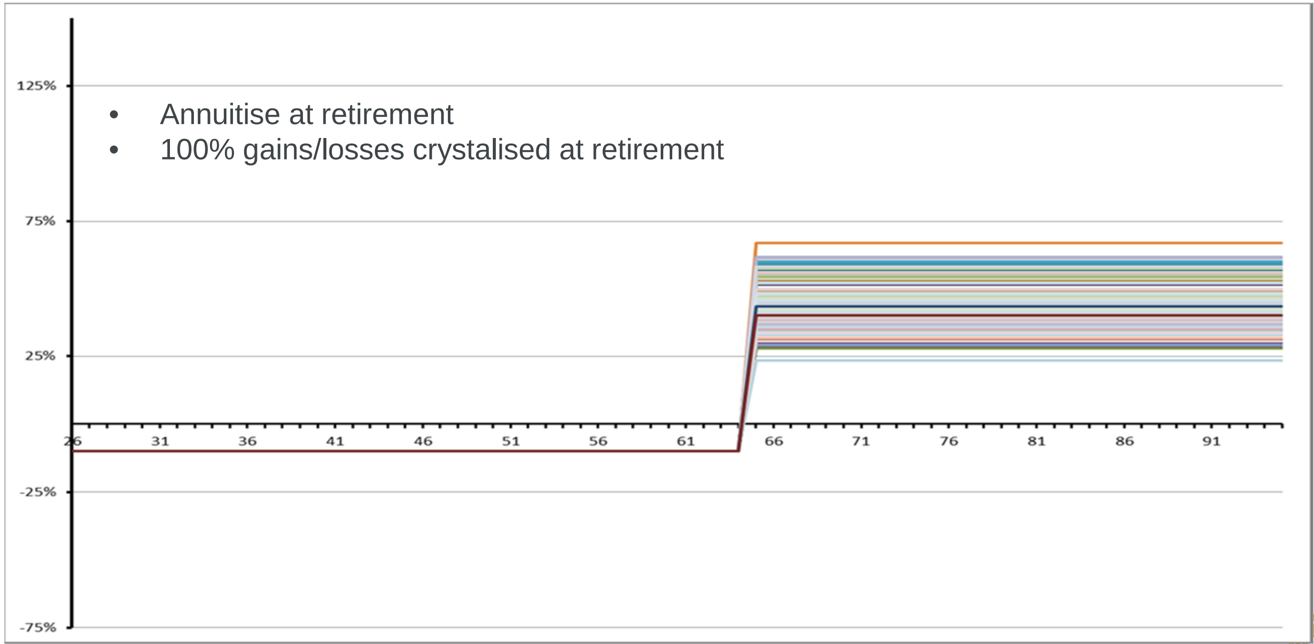
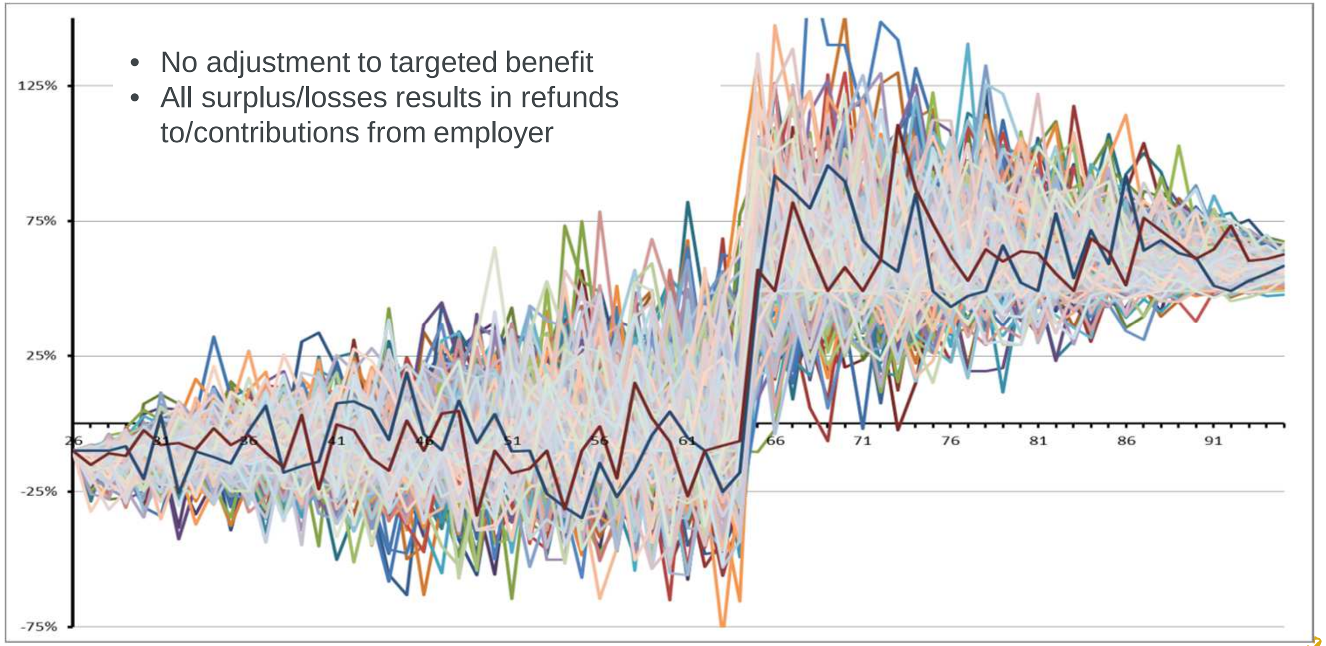
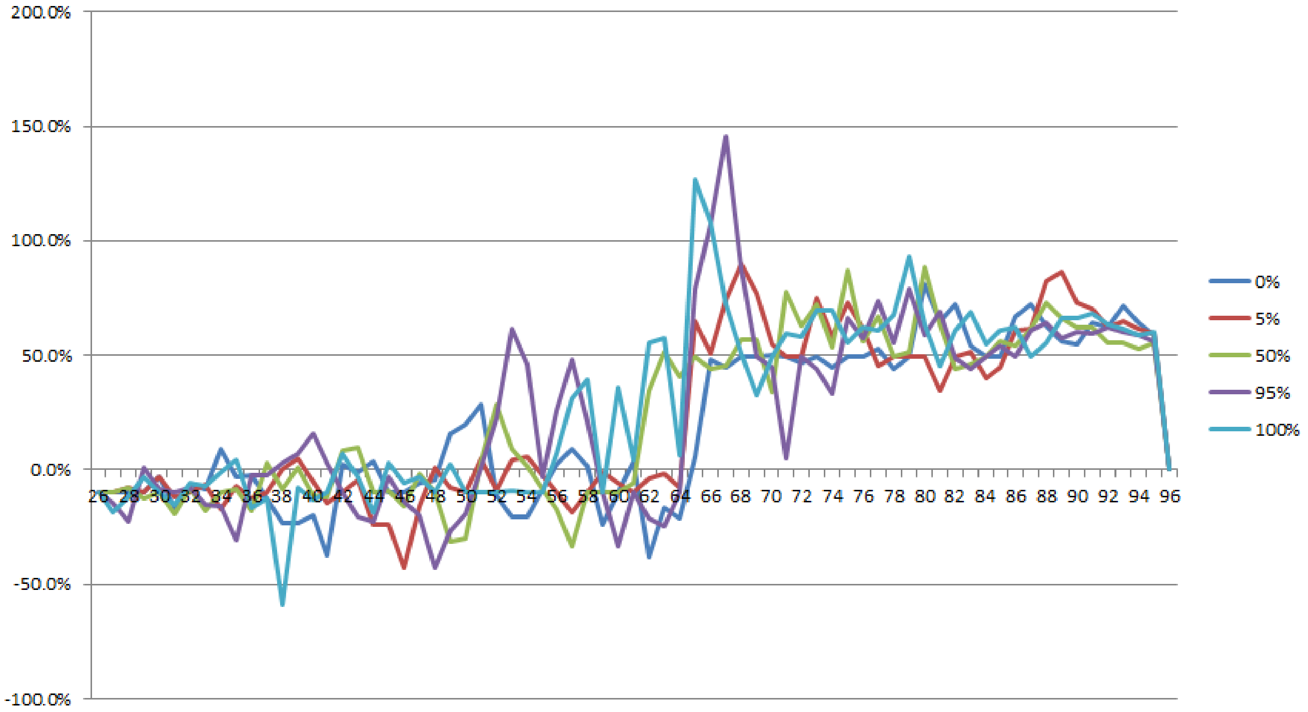
DC type vehicle – annuity purchase



DB type vehicle



Failure scores



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Defining sustainability & failure

- What causes failure
  - Contributions
  - Benefits

“this isn’t working, I need an alternative”

- Types of failure
  - Absolute
  - Relative

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Funding framework

- Levers to generate sustainability
  - Primary levers
    - Benefits
    - Contributions
  - Secondary levers
    - Recovery period
    - Investment strategy
    - Prudence
- Political & regulatory influences

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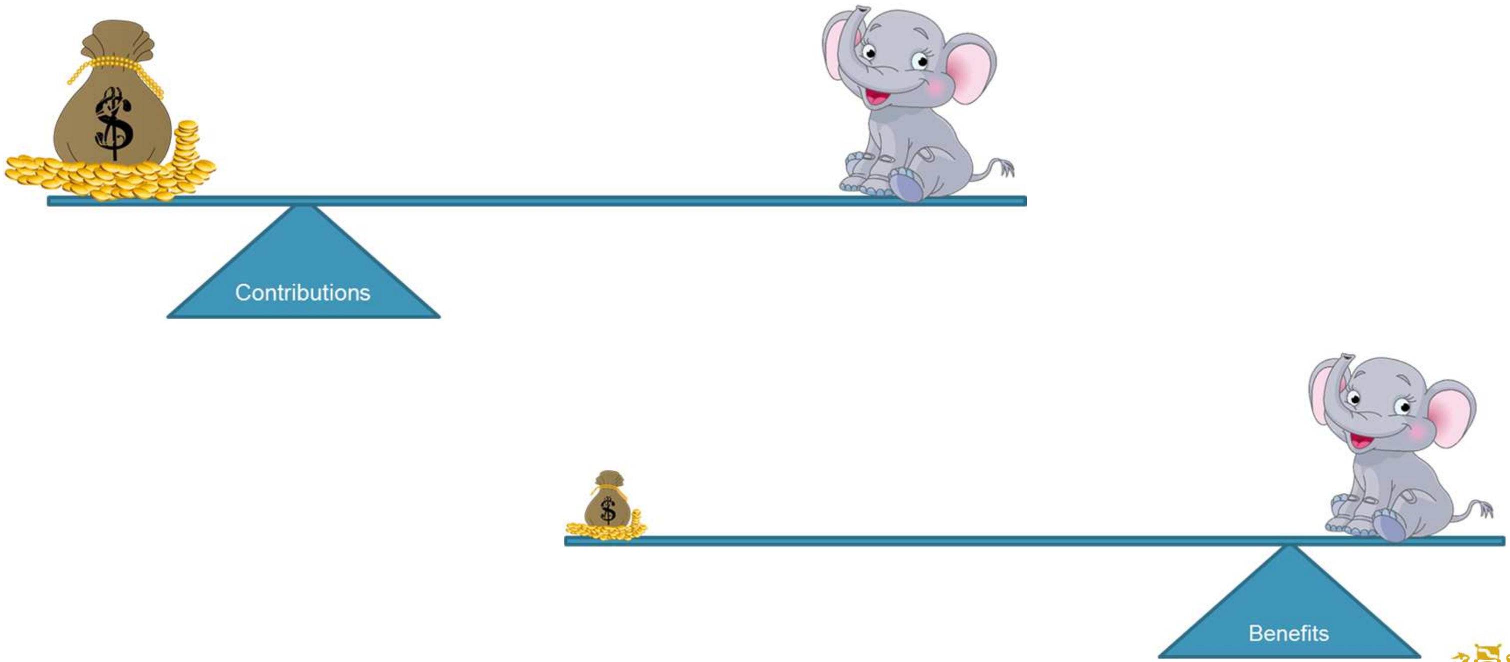
Model conclusions – primary levers



Model conclusions – secondary levers (1)

- Inflationary linked vs non inflationary
- Best estimate vs prudent funding
- Collective vs Individual
- Volatility

Model conclusions – secondary levers (2)

- Regularity of assessments
- Asymmetry of remediation
- Impact of lifecycle
- Acceptable fluctuation buffers
- Ability to accept variable income streams

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Desirable social features

- Cross generational subsidies
- Relative wealth – how rich is my neighbour?
- Desirable sustainable outcomes from investment of funds
- Individual engagement

Conclusions (1)

- Is failure inevitable?
  - Only if lessons not heeded?
  - If inevitable, then design for failure?
- Social change critical
- Financial education also critical
- Risk sharing mechanisms within DC/DB
  - Responsibility of the provider
  - Role of collectivism

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Conclusions (2)

- Achieving macroeconomic goals (e.g. investment in growth economy)
- Reflect other economic and political needs at the time
- Sharing the wealth in a fair and proportionate way
- Free from political direction (?)
- Monitor the State's ability to cross-subsidise and tax (?)
- Flexibility essential, but applied fairly and responsibly

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Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

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