

An International Viewpoint, Bringing the Global Pensions Community Together - Event 2 America

These events are aiming to reflect the approach to pensions in other countries. Sometimes the same terminology is used in other countries to describe a different concept than that which we understand it to mean in the UK. Where possible we have tried to clarify this.



The Pensions Policy Institute (PPI) held a seminar on the 29 September 2020, sponsored by **MFS Investment Management**, Gold Supporting Members of the PPI, with special guest David C. John who gave insight into recent developments with America's pension system, as well as the impact of COVID-19 on pension saving. The event took place virtually with around 40 attendees.

This is the second of a series of internationally focussed virtual events, exclusively for PPI Governors and Supporting Members. Each event features a leading expert sharing their country's experiences of retirement income and saving, any recent reforms, and offer the opportunity for attendees to ask questions and learn from a different perspective.

Madeline Forrester, Head of Global Consultant Relations, MFS Investment Management & PPI Council Member, chaired the event.

Following welcoming remarks and housekeeping from the Chair, **Stephen Eastman, Director, Relationship Management, MFS Investment Management** formally welcomed everyone to the event. Below is his transcript:

"I am Stephen Eastman - Director, Relationship Management, MFS Investment Management based in the US.

We are delighted to be sponsoring this series of international discussions comparing and contrasting some of the different approaches to Pension Provision around the Globe.

For our guests who are not based in the UK, The Pension Policy Institute (PPI) is an educational, independent research organization, with a charitable objective to inform the policy debate on pensions and retirement income provision. The PPI operate at the heart of the UK pensions policy world, and they look to facilitate impactful conversations. The PPI's objective is to inform and promote the long term thinking that is vital to pensions provision, but sometimes hard for elected officials with short term mandates to achieve.

Like the PPI, MFS bases our findings on thorough, long term research and analysis, and collaborative discussions. We hope these discussions will create an opportunity for us all to learn more about best practice globally, and how that might be helpful as we look at our specific regional environments and the challenges and opportunities we face. We'd like this to be a truly interactive session so that we can lean not just from the PPI; but also from each other.

To that end David is going to talk about the potential impact of the pandemic on the US retirement system, as well as other issues with global ramifications such as the challenges of very small pension balances, and ESG. To help us draw conclusions, before considering these issues he will also make a short comparison of the US and UK retirement systems.

Thank you very much for attending, and I hope you find the discussion both useful and rewarding."

Expert presentation

The chair then invited the guest expert, **David C. John, Senior Strategic Policy Advisor, American Association of Retired Persons (AARP) Public Policy Institute (PPI)** to speak on the current experience of the American retirement system.

David outlined the differences between the UK and US pension system. This included discussion of the benefits under the American Social Security system compared with the UK State Pension. Lower earners receive a high replacement rate from Social Security of around 90% replacement rate of their pre-retirement income. The benefit is not paid from general tax revenue, like in the UK, instead there is a specific trust fund from which payments are made.

David then addressed private pension saving. He said that, like in the UK, Defined Benefit schemes have declined substantially, but to the point of being largely gone or frozen in the USA. Defined Contribution saving with employers is voluntary in

the USA and is mostly done through a 401(k) plan with features such as employer matching contributions. He noted that among smaller employers the presence of a pension plan is less common and may depend on tax benefits to the business owner. Individual retirement saving is done through IRA's (Individual Retirement Arrangements) which were likened to ISAs. Maximum allowed contributions to retirement plans in the USA depend on the type of plan, at \$19,500 to 401(k) plans, and \$6,000.

David presented AARP data on the distribution of access to retirement saving provided by the employer. The data showed clear trends in access to an employer plan, with ethnic minorities being less likely to have access to an employer plan than white workers. There was a clear difference by educational level achieved (74% of those without a high school diploma had no access, compared to 35% of college graduates). Income level was also a differentiating factor (75% of earners of under \$14k had no access to an employer plan, compared to 25% of earners over \$63.5k). Employer size also impacts availability of retirement saving access, with smaller employers being less likely to offer any retirement plan than larger employers.

David then went through the impact of COVID-19 on retirement savings in the USA and how access to retirement plans has been made available. People are allowed to take up to \$100,000 from their retirement plans in 2020, the government waives the early access penalty tax, but will tax the withdrawal itself (if the plan is one where withdrawals are taxable) over a period of three years (2021-23). However, if people repay the withdrawal (over the three years) they will avoid the tax.

These measures have led to fears concerning the effect this will have on retirement savings. Media stories have predicted around 30% of employees reducing or stopping savings for their retirement, and 22% of workers borrowing from their account.

David suggested that data from the plan providers doesn't support this, with most reporting very low single proportions of savers (fewer than 5%) taking withdrawals in the first half of 2020. Further he said that data suggests that over 90% of savers made no change to their savings, however 23% of employers reduced or stopped the matching contributions they made. David suggested that the mismatch between fears and reality may be due to the survey approach that has informed these stories, not distinguishing adequately between saving types and intentions rather than current actions. But he noted that this may change, as other savings are spent down, retirement savings withdrawals may increase.

David also set out an issue that the American system has with pensions for people that leave their employer. Sometimes such pots become lost, sometimes they are cashed out. He said that many people do not know that they may be able to transfer their pension to a new plan, but that even if they do, the process can be very confusing and difficult, and that their new employer's plan is not required to accept the transfer.

He then turned to Environmental, Social and Governance (ESG) investment, stating that the scheme managers make investment decisions strictly on their return to participants. He said that the US Government take an approach that the benefits of ESG must be proven to improve outcomes before managers could make decisions to forward ESG goals.

Finally, he spoke about the de-risking of Defined Benefit schemes in America. He explained the approaches of changing investment or by reducing liabilities. Reducing liabilities may be by insuring the benefits to be paid or by paying individuals a lump sum amount to forgo any future benefits. He said that the individual approach was very controversial and tended to favour the employer, but that some retirees face pressure within their family to accept a pay-out.

Question and answer session

Madeline Forrester then opened the session to the audience to ask questions of the guest speaker, **David C. John**. This portion of the event was held under the Chatham House Rule.

Questions included expanding further on some of the issues raised in David's presentation. Topics that were discussed included:

- The impact of the rise of the gig economy and nonstandard working practices have on the adequacy of savings
- Further discussion of how buy-out of an individual's pension income works and how buyouts affect both pre and post-retirement individuals
- Discussion of how the coverage of retirement plan provision may limit the ability of the most vulnerable to access retirement savings during the COVID-19 pandemic
- The differing policy positions of the Biden and Trump campaigns in the run up to the American Presidential election
- Discussion of the management of the small pots problem in the USA compared to the rest of the world

- Further discussion of ESG investment and whether there are situations where they would be allowed
- Discussion of the State level approaches to encouraging retirement provision and why States have taken that on themselves rather than waiting for a national solution
- Whether there was any progress in the USA with dashboards and the issues that may be faced compared to those in the UK
- The risk of the Social Security fund running out of money when it provides the majority of the retirement income to the lower earners

Closing remarks

Madeline Forrester then invited Stephen Eastman and David C. John to make closing remarks and closed the meeting.

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