

MERCER

Consulting. Outsourcing. Investments.



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN



Retirement design of the future

Fergal McGuinness, Mercer
Donald Watson, Hydro Aluminum
Beth Ewing, FedEx Corporation

What's wrong with the current situation?

A hodgepodge of past “fixes”

Individual responsibility without capability

Inadequate provision

The demographic tide is shifting

Weakening government fiscal positions

Volatile and increasing costs for employers

What can we do about it?

Mercer's perspective on the retirement plan of the future

Holistic

- A clear, broad-based review of how retirement systems *as a whole* can best be structured

Clean Sheet of Paper

- Principles-driven and transparent, not taking “installed base” or transition into account

Agnostic to Politics

- Aims for simplicity to promote discussion while recognizing that some facets may be politically difficult

Global

- Global – but allows for the significant flexibility necessary to adapt it to widely varying social and economic systems

Core principles of Mercer's point of view

Adequacy

- Simple, transparent design and predictable costs
- Mandatory contributions
- Individuals should have to make only a few key decisions

Sustainability

- Avoid intergenerational subsidies and financial risks associated with generational shifts
- Predictable outcomes through:
 - Default risk-managed investment option
 - Regulated system of distributions to provide income for life
- Minimal “leakage”

Integrity

- Government-run social security limited to basic subsistence-level pensions
- Governance should be at arms length from the government
- Administration should be cost-effective, with some degree of competition

Mercer's point of view on the Retirement Plan of the Future

Utilizing a constrained DC framework to balance cost, risk and value

Accumulation Phase

- 10% mandatory contribution targeting benefit at 50% of projected covered wages at retirement
- Tax incentivized
- Employer and employee financed
- Mandated first year default fund, with ongoing discretion

Payout Phase

- Target retirement age indexed to remain at 15 years below life expectancy
- Savings divided into three accounts
 - Managed spend-down, with withdrawal initially set at 50% of median national wage at retirement age and no minimum
 - Mandatory set-aside amount to mitigate longevity risk
 - Discretionary account provided by incremental pre-retirement savings

Administration and Governance

- Centralized responsibilities for recordkeeping, administration, participant education and investment management
- Multiple organizations in larger countries, providing competition for price efficiency