

H. C. FOSTER & COMPANY

Retirement and Welfare Plan Actuaries

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Many Face Gloomy Retirement Prospects – Winter 2021 and 2022

The numbers of indigent retirees has increased consistently these last few years:

- In 2017 about 6.7 million persons age 60 and over qualified for Food Stamps with about 2.8 million, or 42% , accepting Food Stamps. This is the Supplemental Nutrition Assistance Program (SNAP).
- During March 2021 there were about 10 million older adults age 60 and over eligible for Food Stamps, of which about 5 million accepting SNAP benefits, or 50%.
- We estimate an additional 25 million or more private sector employees will enter the over age 50 population during the next generation with insufficient retirement income prospects. Food Stamp utilization at ages 60 and over will increase to about 65% if current trends persist.

These figures are aggregated from available references - Center for Benefits Access at NCOA in a publication dated March 31, 2021; and, statistics reported by the Center on Budget and Policies at dates through 2017, both available on the Internet. Detailed statistics are scarce with governmental budget cutbacks. The split between public and private retirees is not clearly defined, but we know public employee plans are rarely terminated or curtailed.

Private sector workers are the most affected. Private sector workers are the segment of our population that produces durable Gross Domestic Product (GDP) that adds lasting value to our society. Gloomy retirement plan prospects persist because only about 51% of private sector workers have access to defined contribution plans to which most can not voluntarily contribute. Equity values collapse every few years, and bond market values decline with increasing interest rates. Only about 25% have defined benefit plan coverage. See our Winter 2018 and 2019 Newsletter for more references and statistics.

Working class wage earners are significantly disadvantaged for reasons that include the following:

- Employed private sector workers do not qualify for social welfare benefits their taxes fund for the portion of the population that produces no goods and services.
- A typical wage earner with no business ownership has no meaningful tax write-offs, so never sees a large portion of his or her wages taken through tax withholding.
- With no significant liquid business assets, many private sector retirees have no financial resources besides possibly Social Security retirement income to pay living expenses and service debt.
- The retail based savings account plans marketed by financial institutions leave retirees vulnerable to market value losses net of investment expenses, sales commissions, and early withdrawals.
- The shift to a service based economy, outsourcing to less expensive foreign labor, and automation eliminates production jobs that have traditionally provided pension benefits.
- Many wage earners can not afford meaningful personal savings after meeting expenses. Participation in voluntary savings plans is minimal, and many must withdraw their accounts before retirement age.

Following are some of the conditions that have created this pitiful state of affairs:

Oppressive regulations – after a series of amendments to ERISA beginning in 1984 that slowly weakened the private pension system, the Pension Protection Act of 2006 (PPA '06) confiscated employers' discretion to set assumptions for pension valuations. Employers can no longer control the

Continued, next page.

Many Face Gloomy Retirement Prospects – Winter 2021 and 2022, page 2 of 2

present value of accrued pension benefits. *Problem solving* will begin with a return to the original ERISA mandate that assumptions setting be determined by the employers and their advisors within reasonable bounds in a manner to fit employers' objectives. This will occur with the removal of governmental interference in pension and benefit matters from private sector businesses.

Federal Reserve actions – beginning in 2008 after “The Great Recession”, efforts to restart the economy through massive infusions of cheap money severely depressed fixed income investment return rates. Retirees are depleting their pension savings in account balance plans with little or no investment earnings. Retirees subject to life annuity contract purchases from life insurance companies receive little more than a return of their monetary principal less expenses and sales commissions. Pension plans forced to pay benefits in LSDs struggle to meet funding requirements. PPA '06, effective in 2007, tied the valuation interest rate for LSDs to the daily Yield Curve Rates that plummeted in 2008, and continue to decline as illustrated by the Minimum Present Value Segment (Interest) Rates (MPVSRs) shown in the Monthly IRS Interest Rate Notices and updated from our Summer Newsletter:

As of	IRS	MPVSR Rates			Explanation of Rates
	Notice	1st	2nd	3rd	MPVSRs are one month behind other rates
November, 2018	2019-03	3.43%	4.46%	4.88%	1st rate discounts payments years ≤ 5
November, 2019	2020-01	2.04%	3.09%	3.68%	2nd rate discounts payments years 6-20
May, 2020	2020-45	1.08%	2.78%	3.47%	3rd rate discounts payments years ≥ 20
July, 2021	2021-50	.63%	2.51%	3.10%	Lookback dates apply for application
September, 2021	2021-60	.70%	2.55%	3.06%	

LSD present values increase rapidly with each decrease in mandated interest rates. *Problem solving* will occur when free credit markets return historical 5.5% annual fixed income rates.

Prevalence of retail consumer retirement plan arrangements – prototype plan documents and IRA arrangements trivialize the serious task of implementing a tax qualified pension plan. Prototype plan documents lack the plan design options of individually designed plan documents. Employers adopt the various types of IRA arrangements to conceal their lack of bona fide pension plans, then expect employees to make investment decisions for their self-directed investment accounts. *Problem solving* will occur when employers again implement self-administered pension plans individually designed to meet specific cost and benefit objectives in the most cost effective manner with independent, non-commission based investment management.

Financial advisor deficiencies - most financial advisors can not duplicate with pencil and paper the results they relay from commercial software, so can not knowledgeably advise employers.

Many recommend consumer retail IRA arrangements because they lack the background to implement tax qualified retirement plans. Some accountants and actuaries also sell commissioned investments, so can not be independent advisors. *Problem solving* will occur with more stringent requirements for persons certified to advise employers in pension and benefit matters with sales commissions disallowed.

Declining educational levels – a weak public educational system that emphasizes social skills over reading and mathematics has created a working class that lacks the critical thinking skills to understand and demand bona fide pension plans with long term retirement goals. *Problem solving* will occur when public educational systems again focus on basic learning and cognitive thinking skills.

Employers' costs for employees' pension and welfare benefits should be offset by reductions in direct wages determined by the value of each employee's production. See our Fall 2016 Newsletter, *Efficient Compensation Design*, for insight to this process. Please e-mail any questions or comments.

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