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Challenges of Retirement Policy, Social Security Reform, and Retirement Income: A Discussion with Alicia H. Munnell, PhD

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CHALLENGES OF RETIREMENT POLICY, SOCIAL SECURITY REFORM, AND RETIREMENT INCOME

A Discussion with Alicia H. Munnell, PhD

Alicia Munnell is director of the Center for Retirement Research at Boston College and the Peter F. Drucker Professor of Management Sciences at Boston College's Carroll School of Management. She is a member of the American Academy of Arts and Sciences, the Institute of Medicine, and the Pension Research Council at Wharton. She is also a member of the board of The Century Foundation, the National Bureau of Economic Research, and the Pension Rights Center.

Alicia H. Munnell, PhD

Munnell was co-founder and first president of the National Academy of Social Insurance. In 2007, she was awarded the International INA Prize for Insurance Sciences by the Accademia Nazionale dei Lincei in Rome. In 2009, she received the Robert M. Ball Award for Outstanding Achievements in Social Insurance from the National Academy of Social Insurance. In 2015, she chaired the U.S. Social Security Advisory Board's Technical Panel on Assumptions and Methods. She has published many articles, authored numerous books, and edited several volumes on tax policy, Social Security, public and private pensions, and productivity.

Before joining Boston College in 1997, Munnell was a member of the President's Council of Economic Advisers (1995–1997) and Assistant Secretary of the Treasury for Economic Policy (1993–1995). Previously, she served for twenty years at the Federal Reserve Bank of Boston (1973–1993), where she became senior vice president and director of research in 1984. She earned a BA from Wellesley College, an MA from Boston University, and a PhD from Harvard University.

In February 2019, Robert Powell, Retirement Management Journal *editor-in-chief, Jason Fichtner, PhD, senior lecturer at Johns Hopkins University, and Teresa Ghilarducci, PhD, professor at The New School, spoke with Munnell about the challenges of addressing retirement policy at the national level and the practical steps advisors can take to help support their clients in retirement.*

Teresa Ghilarducci: Alicia, what helped shape your career?

Alicia Munnell: In the 1960s, after a rather sketchy academic career, I was lucky enough to get a job at The Brookings Institution working for a trio of really smart people on a book about Social Security. When that project ended, I said, "Oh, I'll just stay here and be a researcher and write stuff," because I was pretty good at it. Henry Aaron, one of the authors, said: "Oh, no. You need a union card."

I was going back to Boston, and I think that Joe Pechman[1] wrote a lot of threatening letters to people at Harvard, saying they would never be invited to another Brookings function if they didn't let me in. So I got into Harvard, but I knew I didn't want to teach. Instead, I worked for twenty years at the Federal Reserve Bank of Boston and became director of research and senior vice president. Then somebody called and asked, "Would you like to be Assistant Secretary of the Treasury for the Clinton administration?" And I said, "That sounds just lovely." I didn't do any due diligence. I didn't really know what the job was.

From there, I moved over to the Council of Economic Advisers, then came back to Boston. I thought my career was over, and I was reconciled. At which point, Boston College said, "Would you like to come and have a chair?" I knew nothing about academics, but a chair sounded better than no chair, right? And then, a request for proposal came in to set up a center on retirement research in 1998. And I thought, "I could do that." I applied for a grant and got it. And I've been doing this for more than twenty years.

Robert Powell: If you think back to your career at Treasury, are there some public policy decisions now in effect that we can attribute to you, or for which you can take credit?

Alicia Munnell: If you're in public policy over a forty-five-year period, you learn that you don't have single victories that you can point to. You can just be a part of a conversation that moved ideas forward. Treasury introduced inflation-indexed bonds. Now there were other people who also had the idea and pushed it, so I'm not claiming authorship. But it was something that I had been interested in. I laugh at myself because, in that first week or so, the Social Security actuaries came in with the deficit figure for 1993. It was twice the size of what it had been before. I'm a great fan of Social Security, and I thought: "Not on my watch. I'm not going to have this thing double in size." I asked the actuaries, "Can't you fix this number?" They said, "No."

Robert Powell: In your many years of research, what's the greatest lesson that you've learned and what do you regard as your major achievement?

Alicia Munnell: The lesson I've learned is to look at big questions. I've spent my whole life saying, "What's the question here that we don't know how to answer?"

Even if you don't have every piece of data you need to answer that question, pulling together what's available and getting the best take on it is important—and it's more important than trying to answer a very small question perfectly.

In terms of my career? I think I'm a serial entrepreneur. In terms of research, I managed a research office at the Fed. The Treasury was a kind of research office. The Council of Economic Advisers had a spectacular staff, as does the Center. It's always kind of the same—having an unstructured job in a structured environment where there's a lot of research going on. It's what I enjoy doing, and I hope that it's contributed to improving public policy.

Teresa Ghilarducci: If you were going to do one thing to improve Social Security's finances, would you eliminate the cap or reduce benefits? And if you can't narrow it down to one thing, what combination of things would be ideal?

Alicia Munnell: I think that's the wrong starting point. The American people need to inform the Congress about how they would like to have Social Security fixed. We have this gap, going forward, where we have promised benefits far in excess of scheduled taxes. And we can fix that in a number of ways. We can keep our benefits as promised and raise revenues, we can keep our revenues as promised and cut benefits, or we can do something in-between.

My personal preference is to keep benefits as promised, and a lot of polls suggest support for that. But I think Congress needs that kind of direction before it can move forward. I don't think my personal preference on one of those is as important as trying to get the big picture correct.

Teresa Ghilarducci: I remember an interview with you a long time ago where you were asked, "What did journalists get wrong about economics?" You said: "Social Security. They just don't understand the system."

Alicia Munnell: Right, I don't think journalists do a good job. Because as you all know, the trust fund is due for exhaustion in 2034. So often, that's characterized as the system going bankrupt, and people ignore the fact that payroll taxes were paid for 75 to 79 percent of benefits going forward. Our arguments in this country have to be over whether we want to keep 100 percent or 75 percent, and how we want to pay for it. But certainly, it's not going to disappear in 2034. Getting that right would help a lot.

Robert Powell: Even if the journalists got it right and said that you're going to get 75 cents on the dollar, or 79 cents on the dollar, I wonder whether the American public would be in a position to evaluate the various solutions: eliminating the cap, reducing the benefit, etc. This is complicated economics and public policy, is it not?

Alicia Munnell: It's complicated, but I don't see how any group is going to solve this problem until you solve the broad outlines of the program. To say whether you should take off the cap or do any other specific things, it seems early for that. We don't know exactly how we're going to see it.

It's very helpful to have these bills coming out. The Larson Bill, for example, slightly expands the program.[2] We should have some bills that keep the tax rates constant and cut benefits. Maybe if you showed people two extremes—specific bills or at least the essence of two bills—people could get a sense of where they want to be. But I don't think that people should be lulled into the position of thinking it's not going to cost them anything. It costs money. There's no silver bullet here.

Robert Powell: Wasn't there a tool that you built with the Financial Planning Association some years ago where people could use a slide rule to test various solutions?

Alicia Munnell: There was. And we have a really good little book on fixing Social Security (Sass et al. 2014) that lays out the story. I think it would be helpful in this kind of debate.

Jason Fichtner: Another question is the generational equity issue. Are we going to ask future generations to pay for benefits they're not going to receive? The cost of waiting becomes larger. When I was at Social Security and I was secretary to the board of trustees working on the trustees report ten years ago, we could have just raised the payroll tax cap and gotten to seventy-five-year solvency. Now that option is no longer enough. We're getting to the point where taxes have to increase, the rates have to increase, and we have to cut benefits. And the longer we wait, the larger that delta has to be. That just makes the challenge ever harder and the results more draconian.

Alicia Munnell: In terms of generational equity, we've already blown it. As I was sitting in my office in 1993, we knew that we had this substantial deficit. Now, we've let the baby boomers go through their labor force years, paying nothing. They've escaped scot-free.

Robert Powell: What reforms would you make to Social Security to ensure both solvency and adequacy? How will Social Security reform, or the lack thereof, affect retirement security or your estimates of the number of households at risk?

Alicia Munnell: I have this notion that we should try to separate the start-up costs of the program from ongoing costs. The workers contributing into Social Security pay much more for a benefit that replaces 35 percent of their pre-retirement earnings than they would have to if they were in a defined contribution plan, because there is not a trust fund. There's no interest on the trust fund, so that has to be made up by having this higher contribution rate.

We gave away the trust fund to the early generations of retirees, and that burden should be shared more broadly than the payroll tax. There's no getting away from having to pay it, but I would much prefer to see that thing sort of separated out and paid through the income tax. You'd have to raise income tax rates—there's no free lunch. But then you would have the appropriate burden on workers instead of paying for both the decisions of the past as well as what they need to contribute to earn their benefits. So that's one thing I'd like people to think about. It's so complicated, though. It's certainly not very good for dinner party conversations.

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The second thing is a little sexier, which is, assuming we have a trust fund, to invest some of those assets in equities. Doing it all properly so we're not investing in a single company, but in some broad index, in an amount that's only a portion of the trust fund assets and doesn't disrupt the equity market at all. And it should reduce costs somewhat over the long run. But again, it has to be done thoughtfully. Canada does this and Canadians are not wild people. Both of these just seem worth thinking about when we're coming down to eliminating the shortfall. They're not easy sales, either of them. But they make the job easier.

Jason Fichtner: I guess it really comes down to the reform question. What do you think is going to happen? And what are your expectations if we get to 2034-ish and reform has not happened? Will we default to general revenue transfers to make up the shortfall?

Alicia Munnell: Oh, I think there might be some sort of borrowing that is involved, which would be essentially using general revenues in the short term and then changes down the road. It will be very messy. It would be nice if we could do it before 2034, but I think that 2033 is going to be the year.

Robert Powell: Do you think we'll need the equivalent of a Greenspan Commission?[3] And is there a political will to do that?

Alicia Munnell: I think a commission can be helpful, but I don't see how you proceed unless you have these broad guidelines and you really know what people want. Because people who are very conservative say, "Let's just keep the taxes the same and cut benefits," and then the other people are more concerned about benefit levels and maintain their position. I don't know if each would give enough to go halfway in-between, and I don't think halfway in-between's the right answer.

We need a national consensus on what we want, how much money we want to put into this program and get out of this program when we're retired. And I don't think we have that.

Jason Fichtner: Even a discussion of the opportunity costs of doing X, Y, or Z.

Teresa Ghilarducci: Yes, you can approach it that way. Like, "If we do split it down the middle, these are the consequences." Nobody ever does it. They just stop at, "We split it down the middle."

Alicia Munnell: That's why I think these example bills that come out are useful, because people can get a sense of the extremes. You look at the Larson Bill. It has an increase in the payroll tax for everybody, it has a large increase for people earning $400,000 and more, and then it has benefit enhancements. It shows the specific implications of what it means to maintain current benefits. On the other side, the Johnson Bill introduced in the previous Congress shows what it means for benefit levels if you don't raise money at all.[4]

Jason Fichtner: Why are claiming strategies still so important and what is the role for Social Security in this, as far as educational messaging, literature, framing, etc.?

Alicia Munnell: The "Claiming Guide" that was financed by Social Security is one of our most popular products.[5] It really lays out the things that you should think about as a worker, thinking about claiming benefits. And the case for claiming later is very powerful in the sense that, if you claim at seventy instead of sixty-two, your monthly benefit is 76 percent higher.

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In this age where you have reductions of Social Security replacement rates and modest balances in 401(k) plans, you can really improve your security by postponing claiming as long as you possibly can. We did a study a couple of years ago looking at people claiming at sixty-two. About 36 percent of men claim at sixty-two, and about 40 percent of women (Munnell and Chen 2015). There's sort of a mixed bag. Some of those are people who can't work, and some of those are people who have an old-fashioned defined benefit plan, are pretty well-heeled, and just want to stop working (Munnell et al. 2016).

I'm a big advocate of changing the discussion in the United States from a time when sixty-five was the social norm for retirement. That age became the norm because we had mandatory retirement at sixty-five, and it was when defined benefit plans paid their benefits. But that has disappeared as an anchor, because defined benefit plans have gone away, and we no longer have mandatory retirement. I think we need a new anchor.

Seventy seems like an appropriate age for two reasons. One, it's the age at which you get your highest Social Security benefit. Even if you don't want to claim at seventy, you'll know that you're losing something if you claim earlier. It's also the age that keeps the ratio of retirement years to working years constant, or in-line with what they were in the 1940s when sixty-five was the claiming age. I think we need to change the discussion about how long people should expect to work and try to educate people on the cost of retiring earlier.

Jason Fichtner: Would you be in favor of changing the framing of the education materials that the Social Security Administration puts out and getting rid of this whole discussion of full retirement age? And just say a minimum benefit level, maximum benefit level?

Alicia Munnell: I think that's absolutely right. It's just too confusing. Get rid of the full retirement age. Just have sixty-two and seventy, and you pick where you want to be along that slope.

Robert Powell: Your Center's new paper suggests that unequal demographic changes among income groups are eroding Social Security's progressivity (Rutledge et al. 2018). What does this mean for public support for the program in the long run and how does this affect any efforts to improve the program's finances? Also, how does this situation affect efforts to create a universal national retirement savings system given that low-income workers will end up saving less?

Alicia Munnell: As we all know, there is a growing gap between the mortality of those with less education and those with more education. And that has undermined some of the progressivity of the Social Security system. As a nation, we should worry about the divergence in life expectancy and see what we can do to eliminate that gap.

Robert Powell: What are your thoughts about a minimum benefit?

Alicia Munnell: I think we need a minimum benefit. We have one now, but it's really become irrelevant because it wasn't indexed. I think people have clustered around a proposal to set the minimum benefit at 125 percent of poverty and then index for earnings growth. I think that would be a good program proposal.

Teresa Ghilarducci: Is it time for a mandatory retirement account tier on top of Social Security?

Alicia Munnell: We have a coverage gap in this country. At any moment in time, you take a snapshot of the private sector workforce and half the workers are not participating in a retirement plan of any sort. That needs to be fixed, because it undermines the ability of the 401(k) system to provide decent benefits. We do need to have another tier on top of Social Security. I always get nervous when we talk about any individual account conversation in connection with Social Security, because it takes me back to the early 2000s where privatization was a subject du jour. I, like Teresa, would just like to have auto-individual retirement accounts (IRAs) on a national basis. Mandate for all employers that, if you don't provide a plan, that's fine, but then you've got to automatically put some of your employee's money into an IRA. The employee can opt out if he wants to, but we need to do something to fix this coverage gap.

Teresa Ghilarducci: Do you think opt out would mean that the people who need to stay in the most would be the ones that would opt out?

Alicia Munnell: The whole issue of how to fix the coverage gap is hard. First, it should be done at a national level. It should not be done on a state-by-state approach, although I applaud the states for stepping into the breach and doing it. The problem is, in the end when we look at low-income people, we'll need to see ten years from now … yes, they have some money in their IRA, but have they also accumulated more credit card debt or something like that. We don't really know the lifetime impact of making people with not very much money save. But that's why these state experiments can be very helpful.

Teresa Ghilarducci: That's really interesting. The state experiments are really about data collection and program testing rather than the enduring policy.

Alicia Munnell: I applaud everything that the states are doing. I think that Oregon having a system up and running is just remarkable, and it's an achievement that everybody involved should be proud of.[6] But nobody can want a retirement system where there's a different one in each state. It just doesn't make any sense.

In Oregon they've shown that it's workable, that the employers tolerate it just fine. There hasn't been any uprising of employers in Oregon saying, "We're not going to play." Everybody's been playing very nicely. Maybe it'll persuade the Congress, when they look at the states and see them working just fine, that it wouldn't cause great disruption to have a national system.

Robert Powell: Of course, the national auto-IRA effort failed, right?

Alicia Munnell: Yes. I think President Obama proposed it several times, and it just didn't go anywhere.

Teresa Ghilarducci: I was just wondering why, Alicia, you think it didn't go anywhere. It was kind of mild.

Alicia Munnell: I think it's very mild, Teresa. But I think that even for moderate Republicans, putting a mandate on employers is an unnatural thing to do. They just have to agree to that before it's going to ever get passed. But I'm hoping that the fact that employers in Oregon didn't go crazy will provide some support for doing it at the federal level.

Robert Powell: If all workers' financial literacy doubled overnight, how much of the retirement crisis would the improvement in financial literacy solve?

Alicia Munnell: Zero. Absolutely zip. I think we need well-designed programs that we put people into automatically. I'm happy to explain to people why it's set up this way and what it will do for them, but I think teaching people compound interest is not going to solve our retirement problem.

Jason Fichtner: Financial literacy can only go so far. Even if you make people understand what they're doing, there's still a behavioral bias in some ways that prevents them from doing what they want to do. Nudges and other types of choice architecture or framing can help. But what we really need is auto-enrollment, and education then about why it's necessary. If they want to opt out, they can.

There's something about libertarian paternalism where if I tell somebody, "I'm going to force you to do it," they're going to push back. But if I say, "I think it's a good idea for you; if you want to change your mind and change the outcome, you're welcome to, but you have to make the choice to do it," then people will say, "Oh, okay, that's fine then."

Teresa Ghilarducci: Oh, I see. You're telling me that opt out is as close to mandatory as we can get.

Alicia Munnell: That's what I think. But somebody will say I'm practicing political science without a license. So they'll probably pay no attention.

Robert Powell: What are the most important biases that people suffer from that prevent them from saving or planning for retirement? I suspect present bias is among the top ones.

Alicia Munnell: It is. But I just want to say that I don't think it's all psychological, and that saving is hard. A lot of people in this country live under enormous financial pressure. Wages have not gone up very much, expenses have gone up, people want their kids to live in neighborhoods with good schools. Saving is hard financially even if you don't have any biases. Then you combine that with the tendency to postpone and focus on your present situation, and people are not going to save on their own. The only way people are going to save is if it's done automatically.

Teresa Ghilarducci: Some studies show that older Americans are subject to more financial predation than they are in other countries. Some of that is because some elderly people have these lump sums that they're supposed to manage for their whole lives, but what else is going on there?

Alicia Munnell: As we move to a system of individual accounts, such as 401(k) accounts, people are going to be more at risk because they're in charge of this pile. The question is how to set up ways to make sure that older people are not taken advantage of. It's just something that we're just going to have to get smarter about. Banks are trying to focus on unusual transactions or unpaid bills or things like that, so there are folks at work trying to make sure it doesn't happen. Even today, the first cohorts of people with only 401(k) plans are just coming on board. I think there's been an increase in scamming of people with defined benefit plans as well. But certainly, in a system where everybody has his or her own pot of money, that becomes more of an issue.

Robert Powell: The National Retirement Risk Index (NRRI) suggests that 50 percent of households are at risk of not having enough money to maintain their pre-retirement standard of living.[7] That's a pretty frightening figure.

Alicia Munnell: That is a pretty frightening figure, and it's pretty steady over time. We started in 2004 and it was in the 40-percent range. And then, the financial crisis severely hurt people, and it jumped above 50 percent. It has since come back down to 50 percent. But that means one-half of today's working families are not going to be able to maintain their standard of living once they retire. That is a large number, and it means different things for households in different parts of the income distribution. For low-income people, it means real deprivation. For middle-income people, it means a big cut in how they thought they were going to spend their time.

And even at the higher-income level, you see that people in the top-third—most of whom are not Bill Gates—are going to be much more constrained than they thought they would be. We did an exercise that asked, "To what age would people have to work?" NRRI is constructed by projecting a replacement rate for each household. That's benefits as a percent of pre-retirement earnings compared to a target rate, which is based on this concept that economists have of smoothing consumption over their lifetime. If your projected earnings equal your target, you're fine. If they're below your target, you're not. We then looked at how long people would have to work to have their projected amount equal their target. We found that if people could work till age seventy, 85 percent of people would be just fine. Once again, retirement age becomes the big lever that people have to control how secure they will be in retirement.

Robert Powell: Isn't poverty among the elderly near historic lows?

Alicia Munnell: Yes. Are we going to drink to that? The poverty line for the single individual is $12,000, for a couple it's $15,000. Just think of your own life. Those are just small amounts, but they might be your property tax bill, for all I know. We can't party just because poverty is low. The median income for people sixty-five and older is about $40,000 (Fontenot et al. 2018). It's not a lot of money.

Old people are not rich people. We have to worry about their well-being because they don't have a lot of resources and they're at a time in their lives where they can't do anything to fix that. So, we need to do everything we can to help them be as well-situated as we possibly can, and to make sure the systems are working so that people can be secure.

Jason Fichtner: How would you help people better understand the decumulation phase of their life? So that when they start getting close to retirement, they have a discussion: "These are your resources. Here's how long they're projected to last. Think about longevity or how to help your spouse," etc. What do we do to change that discussion? Because so much of the conversation so far has been saving for retirement, not what you do once you get there.

Alicia Munnell: You're absolutely right. That's where the focus should be shifting these days. I think there are two problems. One problem is, how do you withdraw so that you don't run out of money? But the problem I'm more worried about is that people are going to be fearful and they're not going to spend their money. They're worried about long-term care expenses at the end of their lives, and they're going to excessively lower their standard of living to feel more secure. I think having some kind of lifetime-income provision within a 401(k) plan would be really helpful.

Jason Fichtner: You'd make annuities or partial annuitizations easier to do?

Alicia Munnell: Yes, but have it happen as a default, almost. And not all of it. I mean, maybe 30 percent, 40 percent of your pile could come out for an income. That means you'll have some income no matter how long you live, and it gives people permission. For example, when you get a defined benefit check in the mail, you think: "That's my check. That's what I'm supposed to spend." I think people need permission to spend some of their 401(k) money.

Robert Powell: I recall a study (Bender and Jivan 2005) that talked about people's satisfaction in retirement as generally high, even if they had less income than they expected, as long as three factors were present: They were healthy, they retired on their own terms, and they were married. Right?

Alicia Munnell: Yes, right. And the "on their own terms" is really interesting because people often make this argument that people should have phased retirement and be allowed to have phased retirement. Bender and Jivan (2005) was trying to get at that question in some regard. And what came out was that they cared more about whether they selected the date rather than whether they worked full-time or part-time.

It's not just that people should work longer and understand it's in their interest to do so, but employers have to want to hire them. And the more different we make older workers—that we have gray hair and we need to take Wednesdays off for the doctor's appointment, and then we want to phase down to twenty hours a week, and we don't want to come in on Thursdays—the more you make us look special, the more difficult it is to keep older people in the labor force.

Teresa Ghilarducci: That's really interesting. You said that employers are going to have to want to employ older workers. That's the other blade of the scissors. So you know about this Prudential study (2017) that said an employee who works past their time costs the company on average $50,000 per year? What do you make of the research in that area about the demands of older workers?

Alicia Munnell: I haven't seen that particular study. Clearly, the concern of employers must be that productivity does decline with age, different people at different rates, and different rates with different skills. But they have to worry about whether how much they're paying this person is going to exceed how much they're getting from this person. That is a fair thing to worry about, but probably in many cases wouldn't arise as an issue until after age seventy. Employers are reluctant, right? You talk to anybody who's been in their fifties and has been out of a job, and it's really hard to find a new job.

Teresa Ghilarducci: It is, and it's a long way to seventy. That's twenty years.

Alicia Munnell: Yes. And some of my colleagues here, when they start talking about older workers, they're talking about people age fifty. And I say, "My children are older than that."

Robert Powell: John Shoven[8] and some of his colleagues published a paper (Bronshtein et al. 2018) that said working longer was more effective than saving more. Is saving more one of the options?

Alicia Munnell: I published a paper (Munnell et al. 2012) that looked at how much saving versus working longer matters. Savings had a smaller effect than working longer and asset allocation didn't matter at all. So, it's clear that working longer is the most powerful tool.

Just think about it. If somebody starts saving at twenty-two, thinks he or she can retire at sixty-two, and works for forty years, he or she has a really good chance of living for another thirty years. The arithmetic doesn't work. You can't support yourself and save enough during those forty years to support yourself for thirty years with no wages or salaries coming in. It just can't happen. Working longer is crucially important.

Robert Powell: What should be the main features of the ideal employer-sponsored retirement saving plan?

Alicia Munnell: The ideal 401(k) plan needs to be fully automatic. You need automatic-enrollment, you need an automatic increase in the default contribution rate, and we need to make it easier to roll over balances from one 401(k) plan to another, which now is virtually impossible. I've talked to lots of people in the industry. They've tried to roll over their own 401(k) plan and they can't do it. We need to make sure that money doesn't leak out. We have to put money in and have it happen automatically, and we may have to make sure that people aren't taking money out as they go along. Because whatever the pressure, you can only use that money once.

I would have some big escape valve for people who have unforeseen disasters. But this idea that you can put it in the IRA and then use some of it for education or to do something to your house—I don't believe those are reasonable things to use 401(k) money for.

Teresa Ghilarducci: Would you advocate Congress passing a law where you can't leak before, say, age sixty?

Alicia Munnell: Here's what I would do. I would get rid of any leakage that occurs because of job change. I would try to get the system set up so that people actually could take their money with them. But there's no economic rationale that you should think about taking your money out just because you went from one employer to another. I would not allow people to take their money out tax-free at fifty-nine-and-a-half, I'd make that sixty-two. I would change the hardship withdrawals so that they are true hardships—you have a huge medical episode, or you have unemployment, or something that was totally unforeseen and you need the money. There, I would not impose a penalty tax.

The safety valve that I would retain is the ability to borrow, because most people pay those loans back. I think that knowing that you have some access to your money encourages people to participate in plans and to put in more. I don't want to shut people off cold-turkey. I'd keep the loans but penalize unpaid loans.

Robert Powell: In the past, you and the Center for Retirement Research have been pretty fierce critics of the defined contribution system, writing the book *Coming Up Short* (Munnell and Sundén 2004). Have your views changed? What have we gotten right, and what more can we do, within the existing regulatory and policy framework?

Alicia Munnell: You have to decide whether to join, how much to contribute, how to invest, what you're going to do when you switch jobs, what you're going to do when you retire. All I was saying was that people are making mistakes every step along the way.

The Congress has responded to some of that through auto-enrollment and auto-escalation of default contribution rates. I think it's a system that has worked fine for the top-third of the population—they have balances. But for this system to work well, you have to be in the system every year, contributing with an employer match. Consider an average earner, $50,000, who started in the 1980s, put in 6 percent, and the employer put in 3 percent. The assets receive the actual return that stocks and bonds earned during that period. How much would that person have in 2016? The answer is $350,000. But we know the median balance is $135,000. So where has the extra $200,000 gone? We are just finishing an analysis here that shows people aren't continuously covered. Some of it is due to the start-up of the system, but even once you get past that, people go in and out of 401(k) coverage. So, unless you have a traditional job with good benefits, and you're in it your whole life, you don't get much out of it. As soon as you get below the median or even a little higher than that, you just don't see these expected patterns. The system is not well-designed for those people.

Robert Powell: The Investment Company Institute responded, showing the chart that says if you participate for 30 years of your career, contributing the maximum, that you would replace more than 100 percent of your income (Holden and VanDerhei 2005, figure 3, p. 9).

Alicia Munnell: I'm sure that's right.

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Robert Powell: Many state, local, and public defined benefit plans seem greatly underfunded. Is this an understatement? How big a problem is this?

Alicia Munnell: We do a lot of work in the state and local area. And in fact, we have the data repository for state and local plans generally, and we put out a funding update every year. If you use the plans' assumed investment returns to discount their liabilities, they are about 73-percent funded. But that hides a growing discrepancy between the well-funded plans and the poorly funded plans.

I'd say the top third are doing fine. They're 85-percent funded; if they put in a little bit more, they could be fully funded. But they're going to do just great. The middle third need to invest better, and they need to put in more money on a regular basis, but they can muddle through. The bottom third, I would characterize as basket cases. In those situations, the only way that the issue will be solved is having a summit where all the interested parties get around the table and you figure out how to spread the pain.

There's just an enormous heterogeneity among these plans. And people have addressed these issues. I think that Rhode Island is a good example of a state that has taken action to try to restore balance to the system. Everybody kicked in—employees, retirees, taxpayers. It's not fun, but it's the only way to solve the problem after a pension plan reaches a certain level of underfunding.

Jason Fichtner: Well who's to blame for this? If you look at the solutions, you're saying: "Everyone's got to come to the table and do their fair share. It's got to be a joint-pain issue." But I think there's been a lot of discussion about, "Who's at fault?" Was this a result of politicians who just didn't want to give money upfront and promised future benefits and didn't fund them? Was it unions asking for more pay and saying, "We'll take greater benefits and we won't force you to fund them now?" Was it actuaries who said: "Sure. An 8-percent discount rate looks wonderful. Go ahead and do it." Where does the fault lie in this, especially for those you would characterize as "basket cases?"

Alicia Munnell: I think it was all of the above. Look at Illinois, for example. Employee groups, unionized or not, should be interested in getting the highest compensation they can. But I would say, in Illinois, the employees put in their contribution but the employers did not. I think the assumed return was too high, is still too high. But I don't support the notion that you need to use the riskless rate. These benefits aren't riskless, and certainly for funding purposes, that's not the appropriate rate.

But everybody contributed to this problem. The 1990s really make you think about how costly booms and busts are, because everybody got complacent in the 1990s. They expanded benefits, and when they were overfunded, they didn't continue funding, thinking that's supposed to be an offset for future losses. It distorted funding decisions substantially. And then you came out of the 1990s, where everybody had goosed everything up, and you had the bursting of the dot-com bubble, which ratcheted plan funding down a bit. But they were all coming back when the 2007–2008 financial crisis happened. And that just really separated the plans into these three groups.

Robert Powell: Do we need to bring back defined benefit plans or are they gone forever?

Alicia Munnell: They are gone forever in the private sector. The workforce has changed. They are very good plans for people who stay with one employer consistently over their work lives. They're not that great for mobile employees, and employers don't want the longevity risk and investment risks that come with them. It's also not good to have 401(k) plans where the employee bears all of the risk. Ideally, you would want plans both in the public and the private sector where there's some risk sharing, and people know the rules when they enter about what's going to happen when life expectancy suddenly shoots up or investment returns come in much lower than before.

But the conventional defined benefit plan in the private sector is not going to come back. In the public sector we just talked about, I think in states that are responsible it can work quite well. And there's some states that, if I were in charge, I wouldn't allow them to have a defined benefit plan—Illinois being one of them.

Robert Powell: The issue of student loans represents a looming crisis with spillover effects extending into an individual's retirement years. The reality is that the 44 million individuals who are saddled with student debt are facing more urgent needs than saving for retirement. What are the major implications of this trend as it pertains to funding retirement and do you have any suggestions for mitigating the situation?

Alicia Munnell: Student debt is a huge issue. We just looked at millennials and compared them to Gen-Xers and late baby boomers between the ages of twenty-five and thirty-five (Munnell and Hou 2018). Millennials have fewer assets relative to their earnings at that same age span than the earlier two cohorts, and one of the reasons is student debt. They also got a rough start in the job market by coming out during the financial crisis. But student debt hurts people. We did another study (Rutledge et al. 2018) that showed that for college-educated people, it didn't necessarily reduce the likelihood they joined the 401(k) plan, but it cut in half the amount of assets they had there. That's going to affect them all through their life, and it looks like it will affect how much money they'll have in retirement.

Robert Powell: What about the option of not going to school, or going to a less-expensive school?

Alicia Munnell: If you're going to borrow, you've got to graduate. The people who get hurt the most are the people who take out money and then don't finish. So they don't get the premium for having a college degree, and yet they're saddled with all this debt, and that's really terrible. Somehow, we need to help people complete their education.

Robert Powell: The trend toward six-year graduation rates is not helping that matter at all.

Teresa Ghilarducci: I think Alicia reframed it as, it's not really student debt but the lack of assets of millennials. One reason was student debt. The second reason was graduating or living through a great financial recession or crisis. Do you want to elaborate on other factors that caused millennials to have fewer assets now, and what that will mean for the future?

Alicia Munnell: This study that I did just had pictures of millennials compared to previous cohorts—fewer are employed, fewer have jobs with benefits, fewer have money (Munnell and Hou 2018). And I then wrote up this blog, saying, "They have all these disadvantages right now, but if they worked an additional five years, they could compensate for this." I got the most hate mail that I have ever gotten. They must have thought I was being cavalier. Like, not only were they screwed on one end, but I was going to try to screw them on the other end. I cannot even tell you what they were going to do to my firstborn.

Jason Fichtner: We've always talked about the premium for a college degree, and I'm wondering if that's the right way to talk about it. Because we're starting to see a lot of people who just don't have college degrees who won't be considered for employment anymore. It's no longer an income premium that comes with a college degree but rather an income penalty if you don't have a college degree.

And second, given the nature of student debt now around \$1.5 trillion,[9] which as a loan category puts it above home equity lines of credit but still below mortgages, do we do anything about it? Are we supposed to do a better job educating people before they come to school about the costs of borrowing and what that means? Is it something we should reframe and take some radical steps and say universities have got to take a larger role in making sure their graduates get jobs?

Alicia Munnell: I was just reading a book by Isabel Sawhill (2018) from Brookings. Her notion was, "Let's stop it with the college, already." Our college graduates are one-third of the population, and we put a lot of money into that group. We need to start thinking about the other two-thirds, and college may not be the answer. I think that getting good training for the jobs that are available may be much more valuable, and we need to start thinking about that group more seriously.

In terms of loans, I don't know what the answer is. I think that kids need to feel very certain that they're going to finish college before they take out any loans to start it. That might be a very hard thing to say, but that, to me, seems like the most tragic part of this whole thing: kids taking out loans and not finishing.

Robert Powell: And what about the heuristic that you should not take out more loans than your first year's salary?

Alicia Munnell: That seems like a good thing, if you can do it.

Robert Powell: The Center for Retirement Research has a tremendous amount of great research. Which piece do you wish more financial advisors knew about? Which would you direct an upcoming retiree to read if the retiree could read only one?

Alicia Munnell: Financial advisors tend to talk about money and assets, and much less about your work life, when I believe the work life is the most important message. I also think everybody in America should have the "Social Security Claiming Guide."

Robert Powell: What do we do about contingent workers as they become a growing part of the workforce?

Alicia Munnell: I don't think the number of contingent workers is increasing dramatically. What I have been shocked to find out is that if you use the *Health and Retirement Study*[10]—which is a survey that looks at people from age fifty on—what percent of those workers will have traditional jobs with benefits for every year between fifty and sixty-two?

That number is 27 percent, which is just shocking to me, because all of us who have jobs with benefits think that's how everybody works (Munnell et al. 2019). It's a much more fluid type of work environment than people who are talking about why 401(k) plans will build up such piles. It seems that we've done these two different pieces of research, investigating different things. One, why the 401(k) balances are small. They're \$135,000 rather than \$350,000. And the other, trying to look at how people use these nontraditional jobs. Are they intermittent or once you get there, do you stay in? And out of both of these comes the fact that only a minority of workers are steadily in traditional jobs with health insurance and retirement benefits. That I find really shocking.

Robert Powell: They're not saving for retirement.

Alicia Munnell: You can't save for retirement when not working in a traditional job with benefits. Nobody saves if that's the last thing on your list. You pay the rent, you pay this, the mortgage, you pay that, and you get down to the end and that's not the way saving occurs. Saving occurs when money comes out automatically.

And that's why it's important that people start thinking of their house as a retirement asset. That's the other way you save, because automatically, if you own a house, you pay off your mortgage over time and you build up home equity. For most middle-income people, their house is their biggest asset. Going forward, people are going to need to tap into that asset to make sure that they have a secure retirement. It's very challenging, because people have enormous emotional attachment to their houses. Those are the two places where people save: They save through 401(k) plans, where money is deducted automatically from their paychecks, and they save through their houses as they pay off their mortgages. Both are important, and both need to be used when people stop working.

Teresa Ghilarducci: Do you think that the people who need the home equity the most are the ones who actually have it? Because the median home equity value isn't very much. And those with little home equity also do not have much in other assets.

Alicia Munnell: I'm not so sure. In Massachusetts, we've been trying to push this notion of property tax deferral. We have a property tax deferral program, but it's targeted toward the very low income, and it's run at the town level. Some towns keep very high interest rates. We would like to open that up to all income levels, but maybe put a cap on how much home equity you could borrow against (Munnell et al. 2017). In Massachusetts, the average property tax is about $4,000. Now that may not sound like a lot, but if you could skip paying that $4,000 bill and instead use it for heat and other things, you could have a much more comfortable retirement. And then, that money would be repaid with interest when the person dies or sells the house. Or both.

Jason Fichtner: My only fear is I don't want to get to the point where senior citizens are more indebted and they owe more than their house is worth. Could we have a better conversation about having differential property tax rates? Or having a more generous homestead exemption for those who are older than sixty-five that tiers up as they get older?

Alicia Munnell: My line is self-reliance. These are assets people have. Let's have them use their assets before they go on the dole.

Robert Powell: This notion of reverse mortgages is one way.

Alicia Munnell: One way. But just like everything, I think something like only 2 percent of people use them.

Robert Powell: Right, nobody uses them.

Alicia Munnell: We thought the property tax deferral could work simply. With a reverse mortgage, you require counseling before you take it. Imagine a product where you require counseling before you buy it. That just isn't a good sign. The property tax deferral would be a box on your property tax bill. In theory, all you would have to do is check that and say, "I'm sixty-five or older and I would like to defer my property taxes." That would be it. There would not be all this transaction cost. You still need to educate people about what they're doing, but it would be so simple.

Robert Powell: It strikes me that the only people who are using reverse mortgages are high-net-worth people who are using them to protect themselves against sequence of returns risk.

Alicia Munnell: The government one is limited in terms of how much you can get out. But more proprietary products are coming onboard.

We need to figure out how Americans want to fix the Social Security system; how much through cutting benefits and how much through putting in new money. But that's doable.

Robert Powell: What are your thoughts about what the future holds for retirement here in the United States, whether we need an integrated retirement policy, and should it be a priority and what should it be?

Alicia Munnell: I published a book a few years ago with some co-authors (Ellis et al. 2014) and ticked off the problems: Social Security needs to be fully funded, 401(k) plans need to work better. We need to cover the coverage gap, we need people to use their houses, and people need to work longer. Those are not problems for which we need revolutionary answers.

We need to figure out how Americans want to fix the Social Security system; how much through cutting benefits and how much through putting in new money. But that's doable. Regarding 401(k) plans, I would pass a law that says: "If you're going to have a 401(k), it has to be fully automatic. Automatic enrollment, automatic escalation of the default contribution rate, automatic investments into a target-date fund, and automatic conversion of a portion of the assets into lifetime income." And then, I would clean up the leakages out of the plan. For coverage, I would have an automatic IRA for people when they're not covered by an employer plan.

After that, a national campaign to change the conversation on retirement to age seventy and get rid of the full retirement age. Then, trying to educate people about the fact that they hold a valuable asset—their house—that they can use to help themselves to have a more secure retirement. Those are very feasible changes. Even if we made all of those changes, it would not be perfect. But it would be so much better than where we are now.

Robert Powell: What is the appropriate role of advisors serving those who are saving for living in retirement? And are they doing it effectively today?

Alicia Munnell: When I think of advisors, and people having advisors, I think that's a very privileged group of people. It's not what most people have. I think it's helpful to have an advisor to guide you. I think advisors err on the side of looking at the financial side without looking at lifestyle decisions. The good ones tell you, "You shouldn't buy a second house," or, "You should probably work longer." But I think putting as much emphasis on work decisions as on the financial side is very important.

Robert Powell: What are your retirement plans?

Alicia Munnell: I'm going to tell you the same thing I've been telling people for twenty years: probably in the next five years. It was good enough twenty years ago, and it's a good enough answer now.

ENDNOTES

1. Joseph A. Pechman (1918–1989) was a leading scholar of tax policy and the director of economic studies at The Brookings Institution from 1962 to 1983.
2. The Larson Bill, formally known as the "Social Security 2100 Act," was introduced in the U.S. House of Representatives on January 30, 2019, by John Larson (D-CT), Conor Lamb (D-PA), and Jahana Hayes (D-CT) to expand Social Security benefits and address Social Security solvency in coming decades. It addresses solvency by lifting the cap on income subject to payroll taxes and raising the tax rate for payroll taxes.
3. The Greenspan Commission is the informal name for the National Commission on Social Security Reform, which was appointed by the U.S. Congress and President Ronald Reagan to study and make recommendations about resolving a short-term funding crisis that Social Security faced in the early 1980s. It was named after Alan Greenspan, the committee's chair. https://www.ssa.gov/history/reports/gspan.html.
4. The Johnson Bill, formally known as the "Social Security Reform Act of 2016" was introduced in the U.S. House of Representatives on December 8, 2016, by Sam Johnson (R-TX). The proposal aimed to restore financial solvency to Social Security through benefit reductions, including raising the full retirement age and reducing cost-of-living adjustments.
5. "The Social Security Claiming Guide," Center for Retirement Research at Boston College, http://crr.bc.edu/wp-content/uploads/2011/08/claiming-guide_080218_WEB.pdf.
6. "OregonSaves is a new, simple way for Oregonians to save for retirement. Workers contribute part of their paycheck into their own personal IRAs that stay with them throughout their careers. The program also benefits employers who don't offer a qualified retirement plan by helping them compete with businesses that do. The program is overseen by the Oregon Retirement Savings Board and administered by a program service provider." See https://www.oregon.gov/retire/Pages/index.aspx.
7. "The National Retirement Risk Index (NRRI) measures the percentage of working-age households that are at risk of being unable to maintain their pre-retirement standard of living in retirement. It addresses one of the most compelling challenges facing the nation today: ensuring retirement security for an aging population." See https://crr.bc.edu/special-projects/national-retirement-risk-index/.
8. John Shoven is the Trione Director of the Stanford Institute for Economic Policy Research and the Charles R. Schwab Professor of Economics at Stanford.
9. "Quarterly Report on Household Debt and Credit," Federal Reserve Bank of New York Center for Microeconomic Data (2019), https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/hhdc_2018q4.pdf.
10. The Health and Retirement Study is a longitudinal survey of a representative sample of Americans older than age fifty conducted by the Survey Research Center at the Institute for Social Research at the University of Michigan in Ann Arbor and supported by the National Institute on Aging. http://hrsonline.isr.umich.edu/.

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