PGIM

ENHANCING RETIREMENT SECURITY

Webinar Summary

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Even prior to the devastating impact of Covid-19, one of the greatest financial wellness challenges facing workers has been generating an adequate and sustainable amount of lifetime income in retirement. Meanwhile, plan sponsors continue to grapple with an ever-changing and often confusing regulatory environment.

Following are excerpts from the discussion; the entire webinar can be found here.

- **We're better off today than we were 12 years ago, but…**: The increased use of target date funds, advice tools and financial wellness programs is helping retirement savers, but the coronavirus crisis has further highlighted how much risk has been shifted to individuals from defined benefit programs to DC plans. Thoughtful asset allocation, a focus on the long term, better diversification and lifetime-income solutions are becoming even more relevant.
- **Plan sponsors must maintain a fiduciary mindset:** In the face of the pandemic, take a measured approach and learn from lessons of the past. Focus on the long-term consequences of decisions and stay true to a robust fiduciary process. Sponsors should also look to adopt an institutional mindset when designing investment options, most notably around extended credit sectors, alternatives and private assets.
- **The demographics are daunting:** The world is getting older, and our research shows that when the working-age population share slows by a percentage point, it almost invariably slows average real GDP growth by a similar amount. What's more, as populations grow older, they may be less comfortable with risk-taking and entrepreneurship, both of which are key drivers of the productivity and dynamism of economies.
- **Wealth inequality remains a major problem:** Along with aging populations, increased inequality will likely continue to shape the performance of the economy and markets. A meaningful portion of the wealth of the elderly and the middle class has been accumulated through retirement plans, and getting more households involved, as early as possible, in pension plans and other long-term savings vehicles can help address the challenges presented by both trends.
- **Inflation is more likely to surprise … to the downside:** With the Federal Reserve's balance sheet ballooning, inflation risks are real. On the other hand, the demographic issues mentioned should continue to make for a low-inflation environment. Overall, notwithstanding the high levels of government debt and recent Fed actions, inflation is more likely to surprise to the downside than to the upside. Of course, the slow-growth, low-rate environment poses another challenge for workers trying to secure retirement income.
- **Annuity provisions in the SECURE Act are a step in the right direction:** The Setting Every Community Up for Retirement Enhancement Act of 2019 includes a Safe Harbor for sponsors protecting against fiduciary liability for selecting and monitoring annuity providers. While questions remain about specific aspects of the provision, it does at least pave the way for the discussion of the merits of an annuity offering in DC plans.
- **DC plans need to evolve towards prioritizing retirement readiness:** The self-service model of past DC plans often didn't result in better outcomes for participants. The next generation of DC should focus more on retirement readiness and both accumulation and decumulation. Greater use of technology can provide customized advice, and more robust communication to participants surrounding projected income should be a priority. Solutions that support the unique risks in retirement, including interest-rate and longevity risk, would benefit from a more institutional investment approach.