Aging and Retirement

Employee Benefits after COVID-19

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Introduction

Many employers play a major role in the financial security of their employees. COVID-19 did not change the need for employee benefits and financial security, but it changed the situation of some employees, and probably created a greater awareness of some financial security issues. The Society of Actuaries (SOA), as part of its consumer research on retirement, financial perspectives and well-being, recently completed a survey: *Financial Perspectives on Aging and Retirement Across the Generations*[i] in 2021 (the 2021 Survey). This survey followed up on *Financial Risk Concerns and Management Across Generations*[ii] in 2018 (the 2018 Survey). These studies focus on Americans at all income levels, and the results should be representative of the total population. Between 2018 and 2021, several important societal factors affected the lives and well-being of many Americans. Big societal issues included:

- The COVID-19 Pandemic
- Growing recognition of the importance of climate change
- Major focus on racial disparities and continued recognition of inequality

The 2021 Survey focuses on these important societal issues and their relationship to financial perspectives and well-being. It repeats many of the same issues that were covered in the 2018 Survey but also includes a major focus on the pandemic. This article looks at the results related to the pandemic and raises questions about future directions for employee benefits.

COVID-19, Wellbeing and Employee Benefits

COVID-19 was a huge factor in American lives in 2020 and it is still very important in 2021. It had a very disparate impact on both businesses and individuals. The impact on individual businesses has varied greatly. The extremes are the creation of new businesses responding to opportunities that emerged and some businesses having a large increase in business activity compared to many small businesses and some large ones going out of business. There has also been a huge variation in how individuals fared. The stock market has done very well and many individuals with significant assets and/or stable jobs are better off financially now than they were at the start of the pandemic. But more Americans are worse off than the number who are better off. Some of the societal impacts of COVID-19 included over 600,000 deaths in the U.S., delayed medical care, some victims of the pandemic with what seems to be long-term illness, increased medical debt[1], very large temporary increases in unemployment which have gradually substantially reversed, exits from the labor force, increases in food insecurity, a move to working at home, and disruption of family, travel and recreational activities. Some long-term care facilities experienced many infections and deaths. Individuals in senior housing with care were unable to see family for long periods and in many cases, could not leave their rooms. Large government aid packages offset some of the negative economic effects but at the price of large increases in government debt. Going forward there is uncertainty about future inflation, COVID-19 variants, the impact of unvaccinated individuals on the population, and the impact of lingering effects of the disease.

[1] See https://ospirg.org/blogs/blog/usp/another-longtail-covid-19-medical-debt

July 4, 2021 seemed to be a turning point for some Americans. There were large gatherings (often the largest gatherings since the start of the pandemic) at fireworks displays in many cities. Yet, the situation is evolving. There is a lot of concern about variants and unvaccinated people. As of July 2021, American adults who wanted to be vaccinated have been able to get vaccines, and some children have been vaccinated. Vaccination rates vary greatly by local area, and the biggest barrier to vaccination is individual resistance. Health guidelines have been drastically modified and people who are fully vaccinated are able to do many activities without masks. But the impact of variants is that mask recommendations and mandates are changing, and some areas are implementing new mask mandates.

A new normal appears to be coming to the private sector. Many employers report having trouble filling jobs and the labor market is very competitive. Some of the factors which seem to be affecting personal decisions about working include concerns about disease in workplaces where there are unvaccinated workers and/or customers, and concerns about children. In addition, extra unemployment payments have been cited as a reason that some people have not returned to work. While there is a lot of personal domestic travel, there are still few business gatherings, but some in-person conventions are scheduled for later in the year. Most will by hybrid, offering a remote option. In contrast, international travel is still more limited. And consumer confidence has almost returned to pre-pandemic levels.

In 2019, Congress passed the SECURE Act, pension legislation which allowed for several important improvements in defined contribution (DC) plans. 2020 was the date for moving forward on a number of the opportunities, but COVID-19 focused employers in different directions, so implementation of SECURE Act provisions was mostly put on hold. It remains to be seen how many employers will use the key provisions of the act. It should also be noted that SECURE 2.0 has been introduced into Congress. This legislation will enable further enhancements to the DC system.

Impact on Individuals: Findings from the Generations Survey

The 2021 Generations Survey offers insights into the situation of individuals and their perceptions by generation. A summary of the characteristics of 2021 Survey respondents follows:

Characteristic	Millennials	Gen X	Late Boomers	Early Boomers	Silent Generation
Year of Birth	1980-1998	1965-1979	1955-1964	1946-1954	1935-1945
% Married or Partnered	64%	73%	70%	66%	58%
% with Savings over $100,000	33%	47%	53%	54%	51%
% with Income under $50,000	25%	22%	29%	37%	50%
% College+	46%	46%	35%	36%	33%
% Employed	72%	72%	46%	17%	17%
% Unemployed	9%	7%	7%	1%	1%

Source: Financial Perspectives on Aging and Retirement Across Generations, Society of Actuaries, 2021

Some key findings about the financial impact of COVID-19 from the 2021 Generations Survey respondents are:

- Over half of all generations indicate that the COVID-19 pandemic negatively impacted their overall feelings of wellbeing. Millennials at 65% were the most negatively impacted, and Early Boomers and the Silent Generation at 52% were the least impacted.
- The impact of the pandemic on finances has been very uneven: 36% of respondents say the COVID-19 pandemic is negatively affecting their overall financial situation while 14% say the impact of the pandemic

on their finances is positive. The Millennials were most likely to have been impacted, one way or the other, with 40% negatively impacted, 22% positively impacted, and 38% reporting no impact. In contrast, 69% of the Silents reported no financial impact, 25% a negative impact, and 6% a positive impact.

- The unevenness also extends to employment: In total, 40% of Millennials, 33% of Gen Xers, and 21% of Early Boomers have experienced some sort of job loss or pay decrease. However, 11% of Millennials had their income increase and 43% had no job-related impact.
- Millennials indicated they have shifted their priority to short-term financial goals, with nearly two-thirds (64%) of Millennials saying they tend to plan financially for less than one year in the future.
- Older generations are more confident in their financial security, including two-thirds of Early Boomers who feel they are on track for a financially secure retirement.
- While all generations say they reduced spending as a result of the pandemic, most have not taken other financial actions. The overall impact on finances is a result of many factors including investment performance, reductions or increases in employment income, provision of government aid, reductions in spending, and extra costs due to illness or pandemic-related matters. The net impact is different for each household.
- Social isolation has also been a problem for many people, and other research reports increases in depression and mental health problems.

The Pandemic and Retirement

The 2021 Generations Survey results indicated changes in personal retirement plans: 35% of workers have changed or considered changing when they plan to retire as a result of COVID-19. Four in 10 Millennials and 3 in 10 Gen Xers and Late Boomers have changed or considered changing when they plan to retire—with about 60% of these individuals pushing retirement further back. Millennials, Gen Xers, and Late Boomers all indicate that they expect to retire at a median age of 65.

It should be noted that over the long-term, life spans have increased but retirement ages have not. There are substantial differences in life spans by racial and ethnic groups. There is a societal need to focus on how and when people retire.

Saving for retirement is a major long-term goal. It is usually an important issue for people who have their short-term finances under control and have a decent emergency fund. While the pandemic does not seem to have caused a significant increase in level of concern around retirement risks in general, many 2021 Generations Survey respondents are worried about the impact the pandemic will have on their retirement savings. This concern is greatest for Millennials (57%) and Gen Xers (49%), who are very or somewhat concerned with how the pandemic will impact their retirement savings, especially around maintaining a reasonable standard of living and not having enough money to pay for adequate healthcare. This concern decreases for older generations (40% Late Boomers, 37% Early Boomers, 29% Silent Generation).

Perceptions about retirement preparedness can be connected to general feelings about finance. Feelings around many of the respondents' financial situation are largely positive, with 40% optimistic and 34% saying they are in control. This optimism generally increases with age. About 6 in 10 of all generations say they are on track in planning for a financially secure retirement. This is despite 47% being concerned about the impact the COVID-19 pandemic had on their retirement savings—with concern being highest among Millennials. Two-thirds of Early Boomers indicate they feel on track for a financially secure retirement. Almost 6 in 10 of the younger generations agree.

In interpreting the findings about retirement, it should be noted that there are gaps in financial literacy. This research also shows that many individuals have short planning horizons. Other research from the SOA and other sources shows that people tend to be overly optimistic about their situation. Earlier SOA research shows gaps in retirement planning, including a tendency by some people to focus primarily on regular expected expenses and to believe that events such as needing substantial long-term care will happen to other people. While the survey provides a picture of perceptions, it does not provide any analysis of how well prepared the respondents are for retirement based on an analysis of their finances.

Impact on Employers: Lessons Learned

Employers' experiences during the pandemic are likely to influence their human resources policies and employee benefits in the future. Some of the lessons that employers have learned include:

- What it is like to experience a major longer-term emergency and how important financial wellness and employee benefit programs can be in supporting their employees' responses in any emergency.
- When it is really necessary, organizations can adapt to challenges quickly. During the pandemic, health benefits and time off policies were quickly adjusted to meet the immediate needs of the situation.
- Many jobs can be done from home; with some effort to set up a suitable workspace and compatible technology, this works well for some jobs. This is likely to lead to permanent changes in remote work and job flexibility.
- Technology was available to facilitate working from home, although care needed to be taken to make sure that appropriate security was in place. The technology improved rapidly, and companies were quick to adopt new technologies. Further improvements in automation are very likely.
- There are different ways to communicate within organizations, and some of the new technology supported effective communication among work teams and with employees.
- When people with children are working from home with their children also home, it is a serious balancing act to make everything work, especially if they are also managing remote schooling. Remote schooling did not work well for many children.
- Many people are resilient and can fit into different roles and perform tasks outside of their traditional roles.

These learnings will make major contributions to a "new normal".

As a society, we have learned that some people are not covered by the basic governmental safety nets, and they are vulnerable. For example, the uninsured could be in situations where they were infected with COVID-19, and if they were not treated and isolated, it increased the chances that others in the population could get infected. We learned that it is in everyone's interest to have the entire population covered by a basic safety net, especially during a global pandemic. But it is unclear how well we will remember these lessons going forward.

It seems very likely that some of the things that happened during the pandemic will help define the future of work including:

- More people working remotely and more job flexibility.
- An expectation that the increased resilience and speed of change during the pandemic will be a future norm.
- Continued and expanded use of advanced automation and a continuation of technological development.

This may also mean that employee benefits will change going forward.

Updating Employee Benefits: Issues Facing Employers

Employees have very different personal situations. Employers are trying to help them address a wide variety of benefit plan issues. COVID did not eliminate any needs for benefits, and for many people, it created some new ones. These benefit issues are interwoven with employment policy. Some of the issues/messages to think about as employers respond to the future and post-COVID environment include:

HEALTH AND DISABILITY

- How can we increase vaccinations and encourage those who are not vaccinated to get vaccinated? (Persuasion tactics may need to be individualized and tailored to the situation.)
- What is the potential impact of virus variants on our business, our people and our workplace, and how will that impact employee benefits?
- How do we deal with continuing infections, especially as they affect people at younger ages? What is their impact on health, life, and disability benefits, and on family leave and child-care?
- What will COVID long haulers mean to us? What are the long-term health issues connected to the pandemic and what measures do we need to consider?
- How will rates and periods of disability change? Do we need to improve our disability benefits? How do we deal with the lack of appreciation for disability benefits?
- Will this affect the need for long-term care and how it is delivered and financed?

RETIREMENT BENEFIT ISSUES

- Will the role of the employer in providing retirement security change?
- Will the current situation encourage rethinking how retirement risk should be shared and managed?
- How do we help employees factor climate change and cybersecurity risks into their financial and retirement planning? What other emerging risks should we be considering?
- How do we help employees think about economic uncertainty?
- What are appropriate retirement ages for the future and what messages and signaling do and should we provide employees about them?
- Employees with limited funds are faced with tough choices when deciding whether or not to contribute to their 401(k)'s[2] and in deciding whether to use DC assets for non-retirement purposes. Some of the questions employees may ask include: Should I pay off my credit card or put more money in my 401(k)? Should I spend more to buy a house or contribute more to my 401(k)? (With housing prices so high, this may become a difficult issue for more people.) Should I use a DC plan loan or hardship withdrawal to pay off credit card debt or avoid further increasing such debt? Wellness programs can offer tools or processes to help employees evaluate the trade-offs in these decisions.
- Will DC plans become multipurpose lifetime savings plans? Will plan sponsors be willing to add annuity options as a result of the SECURE Act?

[2] These comments also apply to other DC plans which are used as employee savings vehicles.

- How will employers support the use of emergency funds, and will they have additional options to use for such support? Will they be integrated or separate from DC plans?
- Will the increase in the acceptance of working from home make phased retirement and project work by retirees more commonplace?
- Will more employers focus on protecting retirement security in the event of disability? (While most DB plans offer some protection, most DC plans do not.)
- Will multiple employer plans as authorized by the SECURE Act grow, and will this encourage more smaller employers to provide retirement coverage to employees?

GENERAL WORKFORCE ISSUES AND OTHER BENEFIT ISSUES

- Will organizations that transformed their business also transform their benefits?
- Should we require employees to return to the office, or continue to permit remote work arrangements? Do we provide options and to whom, and what employee benefits do we need to change or add?
- How will real estate needs be structured? Will individual workspaces be redesigned and/or replaced by shared workspaces? Will there be new designs to foster collaboration? Will office locations change?
- Remote working requires that employees have space, technology, and office support in their homes. What types of support will be offered by employees to help them establish and maintain home offices?
- Will childcare benefits and support will be offered, how would they be structured?

FINANCIAL PLANNING AND EMERGING RISKS

- Will the experiences during the pandemic encourage more active planning and saving?
- Will employer sponsorship of financial wellness programs encourage more active planning?
- How do we extend the planning horizons of people who are living paycheck to paycheck or planning for current circumstances only?
- What debt issues should we help employees address? Which issues are critically important for the financially fragile[3], and for individuals for whom debt is dominating their short-term financial concerns? Should we assist employees in understanding the use of credit and long-term impact of debt?
- What is our role in incenting, encouraging, and facilitating employees building emergency funds?
- How do we help employees who have childcare responsibilities, and whose children had school disrupted during the pandemic?
- What housing issues are employees concerned about? Do we have a role in helping them with these issues?

Predictions

Following are my personal predictions for retirement life and security during and after the pandemic.

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[3] Financial fragility is generally the inability to meet shorter term financial needs without difficulty, and it has been defined in different ways. The Society of Actuaries 2018 Generations Survey included a focus on financial fragility, the development of a financial fragility measure and an analysis of financial fragility in a special report, *Financial Fragility Across the Generations*, https://www.soa.org/globalassets/assets/files/resources/research-report/2019/financial-fragility-across-generations.pdf

- Many retirees will be diligent about social distancing, and some are likely to remain very isolated until they feel that everyone around has been vaccinated.
- Some people will want to work longer before retiring. Job options will evolve, and some of them will create opportunities for retirees who want to work on a part time basis.
- All benefits, including retirement benefits, will grow in importance as part of the employment package.
- Employers will revisit their benefit strategies and offerings.
- There will be increased recognition of the importance of emergency funds, and more employers will offer support for emergency funds.
- There will be more multigenerational households.
- There will be innovation and some restructuring of retirement communities. New living options and housing options will emerge.
- There will be major discussions about how to offer retirement security to people who do not have employer plans. Possible options include enhancing Social Security, state sponsored savings programs, encouraging more use of Individual Retirement Accounts, and mandates on employers. Finding societal solutions will be difficult due to major differences of opinion about the role of government, employers and individuals and about major differences of opinion about the use of mandates.
- Major employers may be more open to considering alternatives to traditional DB and DC plans and finding retirement plan designs which include a different form of retirement risk sharing between the employer and employees. Companies operating in multiple countries are more likely to have experience with alternatives.
- The public may place more value on risk sharing and pooling. Risk sharing includes benefits that include more transfer of retirement risk, disability risk, etc.
- There may also be more openness to considering alternatives to the existing employer-based retirement system. State sponsored retirement savings programs are one such alternative.

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[i] The new Generations survey main report is here, as well as a report on race and ethnicity. Additional reports will be coming on additional analysis by topic. https://www.soa.org/resources/research-reports/2021/generations-survey/

[ii] https://www.soa.org/resources/research-reports/2018/financial-perspectives-aging-retirement/