Areas for Tentative Recommendations from Meeting 3

Meeting Topic

Managing Risks. This step highlights the different risks employers and employees face in planning for retirement. It separates each risk into non-systematic types that can be eliminated by pooling and systematic types that must be managed by the employer or employee or pushed off to a third party.

Proposed Areas of Recommendation

The following proposed areas for tentative recommendations are only suggestions to help guide your reading and discussion. The Commission can choose to make tentative recommendations in any other areas that arise during the discussion.

Consider the following risks:

- Investment
- Longevity (outliving your assets)
- Inflation

- Interest Rate
- Long-term Care
- Employment-related income shocks (losing your job, cut in pay)
- Death
- Disability
- Divorce
- Leave of absence (e.g. to care for a relative)
- Unexpected lump sum expenses in retirement (e.g. home repair, major medical expenses)
- Other

For each of these risks:

- Is a significant component of this risk non-systematic? If so, how can that non-systematic risk be eliminated through pooling (diversification)? Will employees eagerly pool this risk? If not, how can the system encourage pooling?
- Is a significant component of this risk systematic? If so, who should bear the systematic risk?
  - Employees and retirees
  - Employers, i.e. taxpayers and users of government services
  - Neither, the risk should be avoided or insured against