ANNA RAPPAPORT CONSULTING STRATEGIES FOR A SECURE RETIREMENTSM



Prospects for Future Generations of Retirees: Discussion of Papers and Related Research

Presentation by Anna Rappaport, FSA, MAAA Better Lifetime Income Options for Retirement Security: How Do Get There? October 10, 2012



- Johnson: Population Wide Perspective
 - Boomers not worse off than those before them, but many face challenges and there are major uncertainties
 - Comments focus on several policy implications
- Richardson: Learnings from TIAA-CREF
 - Comments: Perspective on TIAA-CREF results
 - More data
- Improving Security Post-Retirement



Policy Implications: Transforming retirement wealth into lifetime income will be key

- Comments: Only applicable for those with enough financial assets to produce meaningful additional income
- Understand and address the barriers
- Allow individuals to make decisions over a period of time and use a part of their portfolio for income
- Good purchasing options are key: competition, transparency and standardized responses are very valuable
- Include guidance in process
 - Conversation can be very important
 - Trusted source improves outlook
 - Employer support valuable



- Negative perceptions and press
- Too short a planning horizon
- All of nothing decision
- Employer concern about fiduciary and legal liability
- Financial advice steering individuals away from annuitization
 - Very strong disclaimers on websites
- Failure to fairly present broad range of options
 - Confusion about products



Policy Implications: Comments

- Many Boomers will continue to rely primarily on Social Security
 - **Comments:** Claiming age is critical
 - Many people claim early
 - Some do not evaluate options
- We need to encourage work at older ages
 - **Comments:** More than 40% retire earlier than planned
 - People need to prepare, plan
 - New work options would help



How and When We Retire

Pre-retirees expect to retire later than retirees

At what age did/do you expect to retire from your primary occupation? (Retirees retired from primary occupation, 2011 n=765; Pre-retirees expecting to retire, 2011 n=498)

Age category	2009 Retirees (%)	2011 Retirees (%)	2009 Pre- retirees (%)	2011 Pre- retirees (%)
Under 55	28	31	1	1
55 to 61	33	30	24	21
62 to 64	20	21	16	16
65 to 67	12	12	35	38
68 or older	4	4	16	17
Don't know	2	2	8	7

Source: Society of Actuaries, 2009-2011 Risks and Process of Retirement Survey



Policy Implications: A significant share of boomers will reach age 70 with very little retirement wealth

- **Comments:** Agree with importance of SSI, minimum benefits
 - Annuitization not an option
 - Many people do not expect retire
 - Continued work, health critical to well being
 - Housing is big part of wealth
 - Biggest decisions are when to retire, Social Security claiming



- More lifetime income than in general population
- Some chosen before retirement, some at retirement
- Focuses on
 - Design
 - Framing
 - Complexity of decisions
- Did not mention
 - Importance of guidance can help or hurt
 - Barriers to annuitization
 - Financial literacy challenges
 - Short planning horizon



Perspective on TIAA-CREF Participants

- Culture and messaging: Conditioned to think about lifetime income throughout their careers
- Have more retirement resources than average Americans
 - TIAA-CREF study average retirement account assets
 - Age 55-64 \$371,000
 - Age 65-74 \$765,000
 - Urban Institute study Median financial wealth at age 70 among late boomers: \$40,600
- Faculty members
 - Jobs enable them to work longer
 - Many have generous benefits
- Results very interesting, but unclear how they apply to most of the population



More Data: Experience from Income Solutions®

Diverse group of buyers: purchasing linked to partners, i.e.,employer plans, financial services organizations,

advisors

- Most buyers buy after retirement
- Buyers by age: 56% in 60s, 24% in 70s, 8% at 80+, some before age 60
- By net worth
 - 27% -- \$500,000 to \$1,000,000
 - 21% -- \$1.0 to 2.0 million
 - 14% -- \$ 2.0 million +
- Portfolio decision
 - Most buyers use $\frac{1}{4}$ or less of their wealth to buy annuity

Source of Data: The Role of Guidance in the Annuity Decision Making Process By Kelli Hueler and Anna Rappaport, Pension Research Council Working Paper WP2012-11



Perspective on Complexity: Methods of Generating Retirement Income

Features	Income Annuity	Other Products with Guarantees	Withdrawals
Guaranteed income for life	Yes	Yes, but at lower level than in income annuity	No
Mortality leveraging	Yes	Some	No
Liquidity/access to funds	Not in most products	Yes, within limits	Yes
Remaining account value goes to heirs on death	No	Yes, after fees for guarantees	Yes
Owner can control funds in the account while income is being paid out	No	Yes, within limits	Yes

Need more focus on and understanding of the tradeoffs

Source: Society of Actuaries 2012 Decision Brief: Designing a Monthly Paycheck for Retirement



Decisions to Implement Decision to Purchase Guaranteed Life Income

- How to get assistance?
- When? All at once or in several purchases?
- When will income start?
- How much?
- Benefit provisions:
 - Include inflation protection?
 - Joint and survivor?
 - Death benefit: period certain, cash refund, or none?
- One insurance carrier or several?
- In-plan (if available) or out-of-plan?
- Fixed or variable annuity?



Improving Security Post-Retirement

- Building interest in lifetime income throughout career
- Address barriers to annuitization
- Offer easy economical access to income products
- Social Security claiming age
- Open up opportunities for longer work
- Increasing planning horizons
- Understanding of variability of life spans
- Better focus on likelihood and impact of widowhood