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