How Can Women's Income Last as Long as They Do?

Thought Leaders Discuss Managing Assets in Retirement

JUNE 2009

WISER ❀ THE WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

For more than a decade, the Women's Institute for a Secure Retirement (WISER) has worked to draw needed attention to the significant risk of poverty women face in retirement. Over the course of the past 18 months, WISER has partnered with the MetLife Mature Market Institute (MMI), the American Council of Life Insurers (ACLI), and Mathew Greenwald & Associates to pursue possible solutions to mitigate the risks women face.

The journey toward solutions began with an initial 'blueprint' for change and culminated into a first-of-its-kind thought leader roundtable on retirement asset decumulation. The burning question was, "How can women's income last as long as they do?" This question takes on greater urgency in the wake of the global economic crisis that has wreaked havoc on retirement savings.

Experts from the following organizations participated in in-depth phone interviews and the roundtable discussion. We thank them for their candor and their ongoing commitment to achieving a viable solution to the income risks women face in retirement.

AARP

American Association of University Women

American Benefits Council

American Council of Life Insurers

American Society of Pension Professionals and Actuaries

Brookings Institution

Change to Win

Deloitte Consulting

Dow Chemical Company

Employee Benefit Research Institute

Fidelity Investments

Fox Entertainment Group

General Accountability Office

George Washington University School of Public Health

Hueler Companies, Inc.

MetLife Mature Market Institute

Michigan State University

Monsanto

National Caucus and Center on Black Aged

National Committee to Preserve Social Security & Medicare

National Council of La Raza

National Women's Law Center

Pension Rights Center

Pfizer

R.J. Reynolds

Society of Actuaries

Social Security Administration

Towson University Gerontology Program/Center for Productive Aging

The Urban Institute

University of Massachusetts, Boston Gerontology Institute

U.S. Chamber of Commerce

University of Illinois College of Business

University of Pennsylvania Wharton School

York University Schulich School of Business

The Thought Leader Interviews on Women's Retirement Income Security were conducted by Mathew Greenwald & Associates in collaboration with the MetLife Mature Market Institute, one of the lead partners in the roundtable project.

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Introduction

The topic of retirement income insecurity is not new. We all know the themes: people aren't saving enough, they are not investing intelligently, and they are not going to have enough money to live 30 years or more in retirement. When it comes to women, we know that they live longer, earn less, take time out of the workforce to provide family care, are more likely to work part-time and are likely to live alone at some point in retirement. Women are also less likely to have access to pensions and retirement savings plans through work. All of these factors make it that much harder for women to experience a financially secure retirement.

The discussions to date have focused on the accumulation of retirement assets. And much more needs to be said and done about it. But the focus of this report is on the other end of the retirement planning spectrum. The discussion surrounds the management of women's assets during retirement. Here's a prime example of why it matters:

> Cordelia Robertson received an unexpected letter two days after her 99th birthday. No, it wasn't a birthday greeting from a great-great-grandchild. It was an eviction notice.
>
> Cordelia moved into an assisted living facility about 10 years earlier, with $350,000 in savings. The facility promised she could stay if she ran out of money. They said she could use Medicaid to pay her rent if the time came.
>
> Unfortunately for Cordelia, the rules changed when ownership of the company changed. The company filed a lawsuit in May to force her out of the only home she's known for 10 years.
>
> Cordelia had done all the right things. She saved for retirement, and built up a sizable nest egg. She probably never imagined that her life would be so long, though. And now, at 99, she faces eviction.[1]

Cordelia's plight represents a failure in the way we approach retirement income security in this country. For those trying to save for retirement, investment experts tell us to save enough to pay our costs over our life expectancy. But we don't need life **expectancy** income. We need life**time** income. Cordelia is living proof of the potential – and dangerous – gap between these two goals.

Cordelia's experience is all too common among our nation's aging women. The retirement security deck is stacked against them. Here are the facts:[2]

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1 Joseph Shapiro, "Assisted Living Firm Rejects Medicaid, Evicts Elderly." *All Things Considered, NPR.* Broadcast on August 11, 2008.

2 For these and other facts about women's retirement security challenges, go to www.wiserwomen.org.

- Women work at paid jobs an average of 12 years less than men do over their lifetimes due to family caregiving responsibilities. Fewer work years translates to fewer years saving or participating in an employment-based retirement program. It also means lower Social Security benefits.
- Women earn 78 cents for every dollar earned by men. Full-time working men earn $10,000 more than full-time working women (in median dollars). When part-time workers are included, the median earnings for all women drop to $13,000 below men's earnings.
- Women have a greater tendency than men to work part-time or to work for companies that do not offer retirement benefits.
- Women at age 65 are expected to live on average another 20 years—four years longer than men. This means that what money they have saved for retirement, if any, must last longer than men's.
- Less than one third of retired women today receive pension income. And less than half of today's working women have access to a pension or retirement savings plan through their jobs.
- Women are likely to spend some of their retirement years alone due to widowhood or divorce. For women age 85 and older, only 13 percent are married with a spouse present.
- Nearly 40% of older women living alone depend on Social Security for almost all of their income and more than half would be living in poverty were it not for their Social Security benefits.

A Search for Answers

For many women in retirement, a lifetime income stream would be a sensible solution to mitigate the risk of outliving their assets. A retiree can achieve a lifetime income stream a number of ways. For example, a defined benefit pension recipient may receive her payout as monthly income for life. Typically, the benefit is paid as a "joint and survivor" annuity, through which some amount of benefit continues to be paid to a surviving spouse. However, many defined benefit pension plan participants opt for a lump sum distribution when one is offered.

Retirees may also create lifetime income streams through using some or all of their retirement assets to purchase an immediate annuity.[3] In return for a sum of money, the insurance company begins payout immediately. Monthly benefits continue for life or for a set period, such as 10 to 20 years. The buyer can choose a single life annuity or a joint and survivor annuity. Immediate annuities now offer a variety of options, but with each comes a reduction in the monthly benefit amount. Annuities can be inflation-adjusted or period certain; this means the annuitant can set a finite period, such as 15 years, to receive monthly benefits, after which payments cease. Annuities can also come with a guarantee that the payout will continue to a designated beneficiary until the original purchase amount has been paid out, for example.

3 Another type of annuity, the deferred variable annuity, is more of an investment product than an insurance product and will not be discussed in this report.

A more recent entry into the private market is longevity insurance. This product is essentially a deferred annuity. It is intended to be a stopgap to mitigate the risk of running out of money in later years. For example, a 65-year old woman could purchase longevity insurance to guarantee an income stream from the time she reaches age 85 until the end of her life. Longevity insurance is not an investment product, so it has no cash value.

Mutual fund companies have recently entered the post-retirement distribution market. Generally speaking, their approach is to create a payout stream from an investment mix over a long time horizon (for example, 30 years). (Examples of these strategies were presented during the Roundtable and are included in the Appendix of this report.)

Despite the availability and risk protection benefits of lifetime income products, few retirees opt for them. Only 19 percent of retirees aged 65 and over receive retirement income in the form of an annuity.[4]

In 2007, under the direction of the Women's Institute for a Secure Retirement (WISER), thought leaders began a targeted dialogue on the pursuit of lifetime income for women in retirement. The provocative question was, "How can we as a society, in all its parts, protect our nation's older women against significant financial risks in retirement?" The goal was to identify the right role of government, employers, the financial services industry, families and women themselves in making sure women's income lasts as long as they do.

At the start of this initiative, representatives from more than 40 women's organizations, the insurance industry, financial experts, actuaries and others provided input from which WISER developed a blueprint for securing women's retirement futures. The blueprint outlines seven key facts that put women at a disadvantage for retirement security, and offers recommendations to address them.

From there, WISER partnered with the MetLife Mature Market Institute (MMI), the American Council of Life Insurers (ACLI) and market research firm Mathew Greenwald & Associates to undertake field research. In the first round, Greenwald surveyed the leaders of major women's organizations to determine their thoughts on financial security for women. All respondents believed retirement security to be an important or very important issue to their members. All respondents commented on the need for policymakers to address spiraling health care costs and access to health care. In fact, respondents rated the need for government to address the health care crisis much higher than the need to reform Social Security.

Next, Greenwald conducted more than 30 in-depth phone interviews with experts across several disciplines. These discussions focused on retirement income distribution. That is, for women who have at least some retirement assets, what is their best course of action?

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4 Employee Benefit Research Institute. *Income of the Elderly Population, Age 65 and Over: 2005.* EBRI Notes, Vol. 28, No. 5. May 2007.

The results of the interviews made clear a need to focus policy discussions on asset management for women in retirement. WISER, MMI, ACLI and Greenwald then convened a first-of-its-kind roundtable discussion on the subject. The session brought together experts from academia, public policy organizations, the financial services industry, the employer community, interest groups and government agencies. The goal was to identify the core challenges of asset management for women and discuss potential solutions.

This report reflects the culmination to date of WISER and partners' efforts on focusing discussion on women's retirement security, from the blueprint through the first thought leader roundtable. The specific focus of this report is on how women can best manage their retirement income, and what role various stakeholders should play.

This report comes at a promising time. The Department of Labor, the federal agency with the largest role in our nation's private retirement income system, finds itself grappling with asset decumulation challenges. Its ERISA Advisory Council has held hearings on distribution options in defined contribution plans. The Social Security Administration convened a working group to discuss its role in financial education. They have been working on a retirement decision guide to help people better evaluate retirement ages for Social Security. Other organizations have begun focusing on the post-retirement period, as well.

In addition, the new Congress and Administration offer the hope of a renewed commitment to the financial protection of our nation's older women. The global economic crisis makes this issue all the more critical.

The Blueprint

At the start of this WISER-initiated discussion on women's retirement security, more than 40 women's organizations, the insurance industry, financial experts, actuaries and others provided input to develop a blueprint for securing women's retirement futures. The blueprint is a package of ideas offered to policymakers and others for further discussion, thought and action on making women's retirement more secure.

WISER arrived at the blueprint based on the group's input, and by looking at women's retirement security from several angles:

- Social Security
- Tax code and other legislative provisions that spur coverage and benefits
- Employer-sponsored retirement programs (including defined benefit and defined contribution plans)
- Individual saving
- Health care
- Long-term care
- Financial products that help individuals and employers implement plans and programs
- What one person can do

The blueprint, developed in early 2008, offers key facts and recommendations factored on these components. The full blueprint is included in the Appendix of this report. It is also available for download online, at www.wiserwomen.org/pdf_files/blueprint.pdf.

★ Please note that the originators of the blueprint are a subset of the thought leaders that came together for the roundtable discussion on spending down assets in retirement. The recommendations offered in the blueprint do not necessarily represent opinions of roundtable participants.

Highlights from Thought Leader Interviews

Greenwald conducted 30 in-depth phone interviews with thought leaders from academia, public policy organizations, the financial services industry, the employer community, interest groups and government agencies. They discussed the challenges women face, steps they can take to ensure lifetime income, and the role various stakeholders should play.

Challenges Women Face

The experts agreed on a range of financial security challenges facing women (generally reflecting the bullet points set out in the introduction). The most frequently noted challenge was longevity risk. Additionally, the experts pointed to the negative financial impact on older women when their husbands die, the impact of caregiving on Social Security benefits, and chronic underestimation of the cost of health care in retirement.

Steps Women Can Take to Ensure Lifetime Income

Pursue Lifetime Guaranteed Income

The interviews identified strong (but not universal) support for encouraging women to purchase a lifetime annuity with at least a portion of their funds to protect against the risk of outliving their assets.

> *". . . We need better acceptance of [annuities]. . . Annuitization cannot be emphasized too much, especially for women."*

> *". . .To the extent that an annuity is available, it provides a guaranteed source of income, as opposed to having a lump sum, or someone having to guess their life expectancy and try and manage a set amount of money from that. The annuity provides the stability that even if you exceed your life expectancy you still have a set amount of income."*

However, many thought leaders expressed concern that income annuity products in the private market are expensive, especially for women. Annuity providers calculate benefits based on gender, and since women live longer, they end up receiving a lower monthly benefit than men do. Several thought leaders noted that annuities from employment-based plans are gender neutral, resulting in a more favorable cost for women buyers.

> *"One concern of annuitizing is the cost. If the employer can get the annuity at a better price, it's a great idea (e.g., annuitizing a 401(k))."*

Several thought leaders strongly believed that defined contribution plans should have a default payout feature that includes a lifetime annuity. Others believe that defined contribution plans should at least include annuitization as a payout option.

Tap into Other Retirement Security Vehicles

Thought leaders pointed to other retirement security vehicles that women can consider. Among those discussed were reverse mortgages, longevity insurance and long-term care insurance.

> **A reverse mortgage** turns a home's value into cash. Generally, homeowners who are at least 62 years old are eligible. Reverse mortgages are loans that don't need to be paid back until the owner permanently moves out of the home, sells the home or dies. The amount of a reverse mortgage depends on the person's age, current interest rates, and the home's appraised value.[5]
>
> **Longevity insurance** (as defined earlier) is a deferred annuity that begins payments at some later date to guarantee an income stream if the buyer lives beyond her life expectancy. A 65-year old woman could purchase longevity insurance to guarantee an income stream beginning at age 85, for example.
>
> **Long-term care insurance** helps pay for future care required due to a chronic illness, old age or injury. It helps cover the cost of personal and health care needs.

A recurring theme in these discussions was the reality that Medicare does not pay for most long-term care needs, but most people do not recognize this fact. Long-term care insurance, longevity insurance and reverse mortgages are potentially useful tools to address long-term care needs in old age.

Get Financial Planning Advice

The experts also commented that a lack of financial planning knowledge is a significant problem. Some possible solutions include professional financial planning advice through the workplace, improved online financial planning tools, simplified insurance products, and a clearinghouse for unbiased financial information. Some thought leaders believe that automatic enrollment and other default features of defined contribution plans contribute to positive behavior and reduce the need for informed decision-making.

Stakeholder Roles

The interviews generated several ideas about the role that employers, the financial services industry and the government should play in women's retirement security. Here are those ideas (offered with no consensus):

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5 For more information about reverse mortgages, go to the Housing and Urban Development website at http://www.hud.gov/offices/hsg/sfh/hecm/hecmhome.cfm.

Employers

Thought leaders tend to believe that employers have a central role in the financial security of women. However, some also raised concerns about the role of employers regarding programs for women. One interviewee stated that it is difficult for employers to make distinctions between men and women when discussing retirement out of liability concerns related to sex discrimination. Along the same lines, another respondent voiced concern that employers may expose themselves to too much fiduciary risk with respect to offering financial advice.

Despite these concerns, most thought leaders acknowledged the important role of employers in providing benefits that allow for sufficient asset accumulation, in providing education and advice and in making group purchasing available.

The Financial Services Industry

Most thought leaders interviewed believe that financial services companies should be encouraged to develop simple, transparent products.

> *"People find the marketplace very confusing. [We need] products that are structured in a simple and straightforward fashion, including telling people about costs, risks, and returns upfront."*

> *"They could disclose exactly what they are offering and what it costs. They are out there selling different annuity products and they need to disclose exactly what it provides and costs. Some annuity products out there are really expensive . . . . They look like bad guys. Disclosing information about prices could make [the market] more competitive."*

Thought leaders also suggested that the industry should enhance communications with women. Companies should market products to women with messages that speak directly to them and their unique needs.

> *"Financial companies could do more to develop simpler messages that are consistent, so that each company is not sending out different signals, communicating different action steps. People are bombarded with messages every day, but if you hear the same thing over and over again from all of the companies, you may start to pay attention more. That could be extremely powerful in my opinion."*

> *"Women want to understand how things work and where their dollars go. They don't want to just buy a product with a promise. They need to understand the mechanics, and I think that is more of a female-centric approach."*

One discussant suggested that financial services companies should work more with local communities to educate women about making money last in retirement. Others pointed to examples of where this is happening now. Another thought leader suggested that the industry

could create a network of independent financial planners to help women and men. She noted the current reality that the majority of financial planners are selling a particular product and thus do not provide objective advice.

Finally, one discussant suggested the industry should think about how to deal with investors with less wealth or resources, like those who retire with only $50,000 in their 401(k) plans.

Government

The experts interviewed suggest a variety of actions the federal government could undertake to help enhance women's financial security in the income stage. Suggestions covered reducing the constancy of law changes, industry regulation, Social Security reforms and changes to tax policy that could further retirement security for all, especially women.

> *"The best thing the federal government could do is to stop changing the law. . . . They have on average changed the law regarding retirement savings every other year since ERISA was enacted. That makes it impossible for employers to rationally plan what their plans should look like, impossible for ordinary people to keep up with what the law is."*
>
> *"We need retirement policy. We only have tax policy."*
>
> *"[The government] needs to think about the impact on women for anything they do on Social Security. Social Security is fundamental more so to women than to men."*
>
> *"At the most basic level, we have to ensure that the foundation of Social Security is there. Social Security could use different calculations for men versus women because of longevity, but I don't think that's done right now."*
>
> *"[There] needs to be some changes to the minimum required distribution rules just to enable longevity insurance. . . . It would be extremely expensive, [but it] needs to be reconsidered."*
>
> *"There are a lot of things the government could do to reallocate the incentives for retirement savings. We could get rid of the absurdly high contribution limits for defined contribution plans and IRAs, and instead allocate the money . . . to help people who really need the help to save, for example, to significantly beef up the Saver's Credit, make it refundable. . . ."*

Highlights from the Roundtable

The thought leader interviews prompted WISER, MMI, ACLI and Greenwald to design a daylong roundtable discussion on women's retirement security. The focus was specifically on successfully managing assets during retirement.

The session, held in May of 2008 in Washington, D.C., brought together thought leaders from academia, public policy organizations, the financial services industry, the employer community, interest groups and government agencies. Many of the organizations that provided input for the blueprint, and nearly all the thought leaders interviewed by Greenwald, participated in the discussion.

The conversation ebbed and flowed through a variety of underlying topics, including the need for education and advice, creating a stream of income in retirement, possible default distribution models and a discussion of the accumulation challenges women confront. The group found common ground on several fronts, including public awareness, needs in retirement, current annuity market challenges, and the importance of strengthening Social Security and restoring its fiscal balance, health care reform and the employment of older workers.

The remainder of the report reflects the discussion on these subjects, lays out some topics that members of the group believe merit more discussion, and identifies issues not raised during the roundtable that need time and attention. The report also identifies the implications of women's retirement security to key stakeholders.

Public Awareness

A Need to Reframe the Discussion

The current focus of the public discussion about retirement planning is on arriving at retirement with a bucket of money. We talk about how to fill the bucket through saving, investment strategies, vesting and the like. But what are we supposed to do with that bucket of money in retirement? We don't talk about this nearly enough. When the subject does come up, we hear the basic 4% rule is the way to make your money last through retirement. The strategy involves withdrawing 4% in the first year of retirement, and then adjusting that same dollar amount for inflation in future years. (Example: Year 1, the withdrawal is $20,000. Year 2, with 3% inflation, the withdrawal is $20,600, and so on.) By most accounts, this "4% rule" should sustain an average life expectancy. But what about the people who live longer than the average? At age 90, 4% of nothing is nothing. And the majority of retirees that live beyond "average" life expectancy are women.

We need to talk more about how to manage assets in retirement, and reframe the discussion so that the pursuit of lifetime income – not the prospect of a one-time lump sum check, is the goal of retirement planning. We need to build better awareness about the tradeoffs of retirement income options.

One discussant suggested that messages should be pushed at the places women tend to be when they are not at work:

> *". . . The workplace is a great place to communicate with all your workers, and women as well, but also if you just take a step back and think about where women are, where they pick up their information, where they have to be. . . . Is the grocery store a good place to have some additional information? I think so. I'm always there. I mean, really think about it: How many times do your kids need a pair of black shoes for the band, you know? You're at the mall. . . . Think creatively about where women are and accept the fact that their role is very multi-purposed – and, yes . . . the workplace is a great place to deliver information, but it's not the only place to deliver information."*

Put the "Average" in Life Expectancy

Discussants agreed that references to life expectancy should always come with the word "average" in front of it. The lamentable reality uncovered in surveys is that people tend to believe that their life expectancy is what the charts indicate. They do not understand that some people will live to be 100 or older, and that if we plan to the average, we plan for 50% of people to fail.

> *"I just want to remind everybody that I work in a world where life expectancy is based on when your mother died, and if that was 43, then that's how they look at their life."*

Reposition Payout Options

Discussants agreed also on the need to reframe how we talk about retirement income payouts. People today think of taking a lump sum distribution as retaining "control" over their money. We can help people see that purchasing a life annuity with some portion of their assets **is** taking control – they control their financial fate by protecting themselves from ever running out of money. Some discussants offered their thoughts on what specific messages may resonate. "Money that lasts as long as you will," and "lifetime income gives you control" were among the suggestions.

> *"I've been across the country, thousands of people, asking them, what would you do, would you take a check, or would you buy an annuity? Well, 98 plus percent of the people say, 'I want my check.' Well, of course you want your check, because of the way it's being offered to you, the way it's being phrased. . . . [We need to re-frame lifetime income opportunity] to be something that says, 'Hey, I'm exercising control over my future because I'm able to guarantee some level of income suffi-ciency for myself. ' . . . I don't think we're going to have any success . . . talking about annuitization . . . until we reframe the presentation and delivery of what that means to someone."*

One way to make the value of annuitizing explicit is through benefits statements.[6] Currently, participant statements reflect the value of pension and retirement savings plans as a lump sum amount. This representation acts as a "signal" for participants to take their payouts as lump sums. Employers and service providers could help people recognize the value of annuitizing by including on statements an example of the income equivalent an annuity could provide.

> *"You produce a defined contribution individual account plan, you state the account balance as an account balance, as a lump sum year after year and people naturally will assume that they're going to take it as a lump sum, in addition to all their other incentives to do that or tendencies to do that. . . . [We could] change the framing of the benefits and get people accustomed through account statements . . . that show the annuity value as well as the account value in defined contribution plans."*

However, not all discussants see value in this idea.

> *"I don't know why we think [this] will work in a [defined contribution] environment when it's failed miserably in a [defined benefit] environment where your benefit was expressed as a monthly annuity in traditional plans forever. But people just get to retirement and it's like, how much can I get? . . . Where they've been seeing a lump sum . . . even if you converted it to an annuity along the way . . . we already know that default is ineffective."*

Discussants talked about other ways retirees could manage their assets that might be more palatable to them, that also builds in a lifetime income component. One idea was to help people understand that they could in essence annuitize themselves. A retiree could live off her liquid assets while delaying Social Security benefits to build up the monthly benefit amount.

> *"Or you take that money and you . . . delay Social Security so you're . . . basically . . . annuitizing yourself by increasing your Social Security. . . . Psychologically, I'm pretty sure people would not take a relatively small amount of money, $50,000 if that was all they had, and buy insurance. . . . So [leave them] with a message of, okay, delay Social Security if you have a modest amount and live off that."*

Delaying Social Security benefits can have a big impact on a retiree's monthly benefit amount. Here's an example. Laura was born in 1965. Her current income is $40,000 a year. If she begins collecting Social Security benefits at age 62 (early retirement age), her monthly benefit (in today's dollars) would be about $967. If Laura waited until age 67 (full retirement age), her monthly benefit would grow to $1,429. The difference is over $450 a month. If Laura delayed her benefits until age 70, her monthly Social Security check would be $1,787. Compared to early retirement benefits, delaying benefits until age 70 increases Laura's monthly check by $820.

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6 See *The Role of Information and Expectations in Retirement Planning—Communicating Income vs. Lump Sums*, for an in-depth discussion on this subject. Author: Anna M. Rappaport, FSA MAAA. http://retirement2020.soa.org/defining-char.aspx

Build Awareness of Lifetime Income Options

Discussants generally agreed that it is important to educate women about lifetime income options, like immediate annuities and longevity insurance.

> *"[One idea] is putting longevity insurance in a much more salient place, so that that subset of participants who would respond to the proposition that you don't have to give up that much of your account balance now in order to get a meaningful amount. . . when you're older and you run the highest risk of having run out of assets. In other words, the part of your life you're least able to plan for, which is way out there, where uncertainties are highest, that's where the protection will kick in."*

All participants acknowledged the challenges of making a lifetime income stream versus a lump sum payment attractive, given the nature of our culture of "choice." Consumers believe choice is good, and tend to believe they can do better by going it on their own.

> *"You can't watch TV, listen to the radio, pick up a magazine, a newspaper, without being marketed to about choice, control your financial future, it's all in your hands, here are all these fabulous options for you, all of this upside. . . . To this comment about, they think they can do a better job, well, who wouldn't think they could do a better job if they actually believe half of what they read? So I don't think we should be surprised because the framework of how annuities have been offered has been an all-or-nothing decision. You get your check, which is totally about control, choice, me, management, upside, all this wonderful stuff that you're hearing about, versus the big black hole where you hand over your life savings and you lose – it's a total loss of control."*

Adding to the noise are competing spend it/save it messages.

> *"People are getting their tax refunds from the government and they're being told to spend it; 'Let's get the economy moving.' On the same token we're saying to the same people, 'Come on, everybody has to save for themselves,' and it's these conflicting messages which I think bring up a lot of anxiety."*

Others pointed out that lifetime income products themselves come with risk. Most do not come with inflation protection, so purchasing power erodes over time, for example. Also, a risk exists that an annuity buyer may not sufficiently understand her options, leading her to buy a product that does not suit her needs.

Promote a Long-Term View

Discussants all recognized the short-term nature of people's financial outlook, and the problems that come with it. For example, when employees aren't looking ahead and recognizing the importance of income for life, employers aren't going to focus on it either.

"In the context of trying to recruit and retain people, [employers] look to their employees and their desires . . . . Lots of employers . . . offer annuities in their plans and no one takes them. I [know of an] employer who had a defined benefit plan that they wanted to keep, despite everything that has happened to defined benefit plans. But their employees wanted a 401(k) plan and were demanding, other people had one, why couldn't they too? And so part of what we have to do is get employees to take the long-term view, women and men, to take a long-term view, to educate them as to the value of the plan that they have and the products that are being offered."

Financial Literacy Efforts

Roundtable discussants agreed on the importance of financial literacy efforts. They also generally agreed, however, that financial education alone is not going to work.

"I'm really conflicted about the discussion about literacy. I agree totally that it's a huge, huge problem, but the notion of solving the problem by teaching people to be literate, I despair how many people you're going to teach. . . . If you worked hard, you could move some people up the spectrum. . . . But the piece that's not going to do for themselves isn't going to go away . . . . But I think we need solutions that work without people having to make their own decisions, because otherwise we leave so many people out no matter what."

And a comment that probably too many can relate to was, *"I think I am probably one of those people who is a failure of financial literacy because here I know everything and I still somehow haven't saved enough."*

That said, most agreed on the importance of including financial literacy in K-12 curricula, reaching out through community organizations to adults and using a broad range of media to reach younger people.

"You need media, you need radio, you need television. . . . We need to start young, we need to identify a theme, kind of a caricature . . . and get that out there, so it's engrained in people, and as they go along they understand it."

Financial literacy efforts in our school system could have a positive effect on parents, too.

". . . And for young mothers, I think education in school is a good way. I mean, if their kids are learning about saving – it's kind of like, 'Don't smoke.' [Only now], they come home and [say], 'Are you saving?' "

Discussants generally agreed that financial literacy efforts are out there and that many different players are undertaking them. The downside to this is a lack of coordination.

"There's a lot of confusion around roles and responsibilities . . . so I think coordination is also something that has to be considered. There are a lot of great distribution methods and . . . a lot of great messages. I think we can all be part of it if we can work together."

Topics of Importance to Women

Discussants pointed to several issues of importance to women when talking to them about retirement income security. To have the greatest impact on women, outreach efforts need to:

- Help them understand the range of approaches to build life income and understand the trade-offs and cost differences between them
- Help them understand the potential length of life and variability of the life span
- Identify the costs of care to build the understanding of the role insurance plays to mitigate risks
- Educate them about poorly understood Social Security issues including:
  - The earnings test
  - Widow's limit
  - The impact of the claiming age on benefit amounts

Thought leaders also agreed that it is important to publicize key decisions women face at and in retirement. Women need to ask questions like:[7]

1. What methods of payment will I choose from employer provided pension benefits?
2. How will employer provided defined contribution funds be paid to me?
3. Can I roll over amounts paid to an IRA?
4. What about any nonqualified plans?
5. Do I have a plan for addressing post-retirement risks?
6. Some people will live to age 100. Have I considered that possibility, and will my plan work if I live to a very high age?
7. Should I plan to annuitize some of my money? How much and how? How do I decide what the right amount is?

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7 Source: Anna Rappaport Consulting. Excerpted from "Planning for Retirement: Asking the Right Questions." See appendix for a copy.

8. Is my spouse protected in the event of my death?

9. Do I have health coverage in retirement? If not, how can I get it?

10. Is my spending level aligned with my lifetime financial resources?

11. If I want to work as part of my retirement, do I have a strategy for getting a job?

Current Tools are Ineffective

Discussants generally acknowledged that the calculators and online tools that exist today are overly complicated. Some believe we need to simplify and give users a general baseline to start from.

> *". . . The calculators and some of the things that exist today are . . . very complicated. There is a significant failure rate. . . . You get through about the fifth screen and you're like, this is ridiculous. . . . [There are] certainly a lot of smart minds that went into developing these. They're very comprehensive. That's all wonderful, but we really miss the boat . . . Ask someone for three pieces of information and give them something in return that gives them a baseline to start from. Don't try to solve the world's problems. . . . We need simple tools, and we need women to have access to that kind of material, that they can sit down and in 15 minutes, they can have learned something. Their lives are – talk about multipurpose. I mean, come on. Who's got time to spend an hour and a half on a calculator?"*

Other discussants pointed out that the tools are complex because the programming is complex, and it could be dangerous to simplify them. Simple "starter" tools may be appropriate to get people on the path to retirement planning. However, once it comes to making decisions about post-retirement money, overly simplified tools are unrealistic and dangerous.

Pros and Cons of Default Distribution Options

Throughout the day, the subject of default distribution options in employer sponsored defined contribution plans (such as 401(k) and 403(b) plans) came up. There was certainly no consensus on whether defaults were a good idea or not, or on what a default might even look like. Discussants generally acknowledged the need to first work on communication and education to help people understand that lifetime income is a choice they can make.

> *"[Let's not] waste time arguing over a half-structured default option when people don't understand what their current choices are."*

We heard a lengthy discussion on why mandated defaults are an important consideration, along with vehement reaction that mandates are a bad idea for a number of practical reasons.

One reason is that employers would have that much more reason to walk away from retirement plans. One discussant offered a mid-way option:

> *". . . Maybe we should be focusing on defaults that just keep money in the plan in a reasonable set of investments for two or three years that gives people the chance [to] think about, well, what's the next step? Maybe that's a better step for now."*
>
> *Discussants appeared to agree that default options at the time of distribution is a topic that warrants exploration.*

Need for Systemic Fixes

Discussants agreed that fixing Social Security, addressing the health care crisis, and ensuring viable employment options for older workers are important components of addressing retirement security.

Social Security

Discussants readily agreed that the strength and form of Social Security is fundamental to the prospect of retirement income security, particularly for women.

> *"But in the end, what it comes down to is that you really need to do something about Social Security and Social Security is such an important program for women. . . . And we really think that this is something the Congress ought to consider as they look at Social Security reform, that . . . when you go for an improvement in solvency, make sure that you're taking care of the people really at the bottom who are not going to have a lot of income [when] they retire to worry about . . . whether they annuitize it or travel with it or whatever. They're just not going to have it. So shore up Social Security. . . ."*

While there was no discussion about specific steps needed to strengthen and enhance Social Security, discussants appeared to agree on the importance of it remaining a benefit paid as guaranteed life income.

Health Care Reform

As important – if not more – is the need to address the critical state of our health care system. People's fears about the rising cost of health care will block them from ever considering annuitization.

> *". . . If you can wrestle health care, you can actually then start to come to reasonable retirement solutions because then I think you'll get people more willing to make the choice that's the best for their longevity. But because of the healthcare issue, which is also, quite honestly, we hear scaring employers out of even just providing any kind of assistance with retirement because they're spending so much money on health care, we're not going to get that far."*

Employment of Older Workers

Discussants also pointed to the importance of meaningful employment opportunities for older workers. One discussant commented that we cannot raise the Social Security retirement eligibility age without good work options. Older workers need options to enable them to continue to work, gradually rolling into retirement, or working on a different basis.

Market Challenges

Discussants explored issues in the current market that serve to dampen interest in lifetime income products.

Product Confusion

A significant challenge in the annuity market is confusion over product types. It is important to differentiate insurance products from investment products, and few people seem to understand the difference.

> *"I just wanted to make the point that the difference between whether or not we're trying to get an insurance product to people, meaning ensuring that you don't outlive it, or we're trying to get an investment product to make sure your money grows . . . that gets mixed up a lot in the sales and the discussion and the education. And I think people get confused as to what they're supposed to do. So they're trying to do both, which of course anybody would want to do, get the best investment possible and also [generate lifetime income]. But that then runs you into the problem that . . . you get very expensive products if it's going to do everything for you."*

Lack of Neutral Sources of Advice

An issue that recurred during the day was the challenge of finding neutral advice on retirement products.

> *"There are very few people in the marketplace that people feel that they can trust because everybody's selling a product . . . not everybody is disinterested and the number of disinterested parties in the marketplace gets fewer and fewer every day."*

To remedy this, one suggestion was to have a better system of identifying planners that are selling a product and therefore lack objectivity, versus those who are objectively counseling people. However, planners that do not sell products charge a fee for their services, and also may require asset minimums, which effectively shuts out most moderate- and low-income individuals.

Some participants suggested that the availability of a neutral resource for advice would likely increase the incidence of women buying lifetime annuities.

". . . When they have independent advice and they're not being per se sold or they're not frightened and they don't have the fear issue to deal with, they may be more motivated and more comfortable making the decision about putting some of their money toward a dedicated lifelong income stream."

Fee transparency also came up as an important way to reduce anxiety over buying annuities.

"Just let people know right up front what . . . they're paying for. People know that some of this has to be going back to the insurance company. How much is being paid for marketing and other fees? So it's completely transparent and people know that if they hand over that money, there's no way they're going to lose that money. I think that's why people are still putting money in CDs, because I think there's fear [in handing over] a large chunk of money."

In addition to concerns over fee disclosure, discussants noted that fees vary greatly and are quite high in some cases. One remedy is for employers to offer group purchasing with much lower fees.

The lack of neutral advice, combined with stories about people who purchased unsuitable annuities, has resulted in a significant lack of trust among potential buyers.

". . . I had one member who recently bought insurance for her grandchildren, not understanding that she's insuring her grandchildren's life, not her life. Now, that's probably her fault, but I think that's a reality of the market."

Market challenges like these lead to trust challenges.

"I just really get very nervous about people saying, you ought to annuitize, when you're really throwing people over the deep end of the pool without being able to point them in a direction for an annuity that might actually be a safe product for them."

Some discussants pointed to the reach of Social Security field offices for providing neutral advice, given the tremendous volume of traffic they experience. The downside is Social Security's heavy operational workload and the reality that their people are not financial planners.

"When we've run focus groups on issues such as this, people want Social Security to play a role . . . . I do think that government needs to consider what kinds of materials should be provided because I do think that there is an issue of where can you get good advice? We've had focus groups where people have generally agreed that the best advice they get is from their brother-in-law. That's probably not the right place."

Others advocated for a private-public sector approach to providing neutral advice.

"So I think that the direction needs to . . . encourage people . . . to focus towards the sources that are properly motivated to provide them independent information about why lifetime income is important, which I think are the employers, the government, the academics. And it's a private-public sector combination, and it needs to move people away from the traditional feed them to the wolves: 'Here's your check. Good luck.'"

However, entities like employers or the government generally provide information and education, rather than financial advice. Also, advice around retirement income issues is not easy. There is not a standard agreement about when or whether people should annuitize or what percentage of assets they should annuitize. There is no standard for advising the right timing of retirement, either. Different sources of information can provide wildly different advice. Additionally, some discussants raised concerns over putting more onus on employers for a variety of reasons.

"I do think the employer role is critical. I think that their role as . . . collective purchaser, their access to information, their ability to . . . reach big groups of people [is] something that we really don't want to under-value in our system. But I think it also helps to understand their perspective a little bit. They are in the business of whatever business they're in and they need to recruit and retain people, and that's why they offer these plans. To the extent that these plans are not enabling them to recruit and retain people then they're not as interested in keeping them. That speaks to the issue of mandates. And when you put a whole lot of mandates on employers and you increase the burden on them, it makes it less attractive to them."

Given the array of good financial information available from government agencies and nonprofit organizations, it would make sense for employers to leverage these resources rather than assume added responsibility for directly providing support. If employers direct employees to these resources and help them see where they fit into their planning, that can be a great help, because employees often rely heavily on their employers.

Other Topics Considered

Several topics were touched on but not discussed at length during the roundtable. Discussants pointed to some that merit further discussion.

Spousal Consent

Spousal consent is a major issue for employers and for those concerned about women's rights. Under defined benefit plans, the automatic form of plan distribution at retirement is a joint and survivor annuity. Spousal consent is required to elect out of this option. Under defined contribution plans with an annuity option, spousal consent is required, but if the plan offers only a lump sum, no spousal consent is required. Some discussants raised the specter of extending spousal consent to defined contribution plans.

Advocates for women's rights feel that this is a critically important provision, but others question its effectiveness. Employers find spousal consent complex and expensive to administer. Electronic signature collection could reduce the burden on employers, but others oppose this option. This and other proposals to simplify spousal consent are controversial, and there is no consensus among diverse stakeholders on this issue. More discussion is needed if a move to include income options in employer sponsored defined contribution plans is to move forward.

Pooling Risk

Some discussants argue that the government should secure an appropriate risk pool. When the total population is a risk pool, such as in Social Security, the mortality reflects average population mortality. When there is a small group in a risk pool, such as people who chose to purchase individual immediate annuities, the risk pool is very different. People choosing to buy these contracts are usually very healthy, which drives up the cost for the group, reflecting the expectation that this group will live longer than the population as a whole. To have more reasonably priced annuities in the long term, some discussants argue that it would be necessary to have a larger and more average risk pool, such as that found in typical defined benefit plans. Such pools could be in the form of purchasing pools or possibly linked to employer plans.

Default Distribution Options

As noted earlier, discussants had varying opinions on the role, if any, default distribution options should play in encouraging lifetime income options from employment-based plans. Would a default distribution that includes partial annuitization be effective at increasing annuitization? If so, would it be structured through a direct plan offering or as a direct rollover to an IRA, or should the employer decide? Depending on the structure, issues involving unisex pricing, spousal consent and fiduciary liability arise.

Other questions swirling around the default distribution idea include:

- At what minimum age would it apply?
- At what minimum account value would it apply?
- On what portion of the account would it apply?
- Could the annuity portion be longevity insurance? Should it be?
- Could the distribution include a 'free look' at the annuity? In other words, can the individual try the annuity for a certain time period and surrender it without penalty if it isn't suitable?
- Should a default distribution be mandated or encouraged through tax incentives?

It is clear that additional discussion is needed to work through the complexities of default distribution.

Communication of Defined Contribution Benefits – Account Balances and Income

As noted earlier, some discussants believe that stating defined contribution plan balances in terms of lifetime income payments would have a strong signaling effect on plan participants. Currently, participants' statements show their balances as lump sums, so it stands to reason they think of the amount as a lump sum. Would stating the account value as lifetime income payments encourage participants to annuitize? If plans are required to show the balances as lifetime income payments, on what assumptions should the payment amounts be based?

Additional Issues

Some discussants offered ideas on related issues to look into more deeply. These topics did not come up explicitly during the roundtable, or if they did, discussants did not address certain aspects.

Social Security Reform

Discussants universally agreed on the important role Social Security plays in retirement security. Most believe it is important for policymakers to strengthen Social Security. Should we focus exclusively on expanding and strengthening Social Security? If we do so, what is the risk of reforms being many years away? And will we have missed an opportunity to do substantial good now by strengthening and expanding the private retirement income system?

Lump Sum Distributions

Should our retirement income system prohibit lump sum distributions? If a participant wants a lump sum, should she first need to rollover her account balance into an IRA and take the distributions from there? Would this complement a default distribution proposal?

Retirement Income Policy Statements

Should regulations encourage or require qualified plan sponsors to maintain a policy regarding the education of employees with respect to longevity risk and helping employees protect against this risk?

Implications to Stakeholders

The topic of women's retirement security has implications to a range of stakeholders – the financial services industry, employers, policymakers, individuals and their families, and society in general.

The Financial Services Industry

The financial services industry can grow its business and meet customer needs by addressing challenges in today's market. Consumers are wary about annuity products. One reason is that they are complicated, and often confused with other products. (And in fact, the term annuity is applied to a wide range of products, including deferred variable annuity investment products and simple premium immediate annuities. These are two very different types of products.)

Another reason for consumer wariness is that product costs are not always transparent and are believed to be high. Also, some purchase decisions are irrevocable, which creates a level of discomfort. People also tend to believe that annuitization is an all or nothing proposition. Added to all of this is the reality that the optimum age to make decisions about income and portfolio structuring is a complex and highly individual matter.

The financial services industry now offers a range of products that support the post-retirement period and offer income in retirement with different features. These include lifetime guarantees, survivor benefits, longevity insurance, products that payout income for a long term but with refunds and no lifetime guarantees, and more. These products, as well as the structuring of income portfolios, already play an important role in our nation's retirement security. As the range of products and consumer choices increase, the need to help consumers understand the options and tradeoffs grow. The challenges and opportunities grow as well.

Retirees don't use immediate annuities very often, but they could play a much greater role in the security of our nation's retirees. Increasing the role of income-focused products will require addressing consumer needs for information and advice and offering products that fit the risk preferences and resources of consumers.

Employers

Most everyone acknowledges the importance of the employer role in helping employees prepare for retirement. Their role is multi-faceted: providing benefits, offering opportunities to save, helping employees understand their retirement income options, offering advice, and serving as an agent to help retirees purchase annuities and financial products on an attractive basis.

Employers are subject to many legal requirements and fiduciary responsibility on the benefits they offer on a voluntary basis. Discussants recognized the delicate balance between expanding legal requirements and helping consumers, because at times, expanded requirements don't really help – they just induce employers to avoid offering benefits.

Some, but not many, employers offer income options, including life income directly from their plans. Other employers provide the opportunity for their retirees to get favorable pricing and request multiple bids from annuity providers to convert some or all of their 401(k) assets into an annuity, directly or through an IRA rollover. The added benefit of this approach is that individuals get the advantage of institutional pricing, which can result in a higher monthly benefit.

Some employers now pay for their employees to access investment advice for 401(k) assets through outside service providers. Retiring employees would greatly benefit from receiving such advice during the post-retirement period.

Employers could do more to provide good information on the importance of the post-retirement period and the trade-offs and types of available approaches. To minimize the administrative burden and possible liability issues, they may be inclined to do this with information available from an impartial source, such as a government agency or not-for-profit organization.

Policymakers

Running out of money is a personal disaster, but it affects more than the individual who is left destitute. For one, poor people are unable to participate in the economy by purchasing products and services. This affects their local communities. Additionally, higher rates of poverty add even more strain to public safety net programs like Medicaid. Stresses on Social Security and Medicare may lead to benefit reductions in these programs. Government must pay close attention to the retirement income security crisis our nation faces, to avoid the negative impact on our communities and existing social programs.

The claiming age for Social Security benefits is important to millions of people. The federal government has a role to play in helping people better understand the implications of the age they elect to begin receiving benefits.

The government also needs to consider the efficacy and cost of tax incentives to promote lifetime income. Should such a tax incentive exist? If so, what income group(s) should it target? Another related issue policymakers need to consider is the interplay between products like longevity insurance and minimum distribution rules.

Individuals and Their Families

Retirees have Social Security to help keep them from slipping into poverty. But Social Security benefits is all there is for four in ten older women living alone. It is usually not enough to live on.

We have an imperative to break through to individuals and their families about the importance of lifetime income, particularly for women. Families must recognize the unique risks faced by the women among them, and help them mitigate these risks. Old age poverty for women can

have a domino effect to younger generations and their families. The burden of caring for an aging relative with no money affects the ability of the caregivers to prepare themselves adequately for the financial risks they face.

Society

It is said that a rising tide lifts all boats. It's the reason we generally accept, for example, the appropriateness of paying taxes for public education, even though we may not have kids in the system. We all benefit from an educated society. Education leads to better employment opportunities, higher wages and more opportunities to achieve our potential individually and collectively.

Similarly, it benefits us all when each of us is protected from retirement income risk. The rising cost of health care is due in large part to the millions of uninsured Americans who need health care services. We all pay more to pay for those without insurance. With people slipping through the cracks by the millions, we all suffer in the form of higher costs.

Then there is the moral perspective. Women in our society make exceptional sacrifices to provide care to our nation's children and our nation's aging. We have an obligation to treat our mothers and grandmothers, our sisters and friends, with dignity and respect as they age.

Conclusion

For so many years, so much of the public discussion on retirement income security has been about inadequate savings. This subject continues to merit significant attention. But now we're starting to look at the phase of retirement itself, and asking what women can do with what money they have to protect themselves from poverty.

Social Security is a saving grace for millions of retirees, especially women. It continues to play a critical role in retirement income security. Policymakers must address the fiscal challenges of the system, to allow it to continue playing the role of safety net to millions of retired Americans. Equally critical is to find a solution to the current health care crisis. Without an answer, retirement income security remains elusive for millions of today's and future retirees.

All stakeholders have a role to play in reframing the way people think about retirement income. The pursuit of lifetime income should trump the perceived value of receiving a lump sum of retirement money, particularly for women who often defy life expectancy estimates.

Efforts to bring forth a focus on the importance of lifetime income options for women will continue. This report will be distributed to policymakers in an effort to educate them about the range of issues surrounding women's retirement income security. WISER intends to reconvene roundtable discussants in connection with its planned 2009 symposium on women's retirement. As of this writing, WISER expects to host the symposium in December. This, and discussions to follow, will provide added ideas and insights on what the collective "we" can do to make sure women's retirement income lasts as long as they do.

Appendix

BLUEPRINT:

Securing Women's Retirement Future

This **WISER Blueprint for Securing Women's Retirement Future** represents the thoughts and ideas of opinion leaders from more than 40 women's organizations, representatives of the insurance industry, financial experts, actuaries and a broad range of people interested in the future of women's retirement. While it is not a finished product as such, it is an outline—a "blueprint" for thinking about this very important issue. It is a package of ideas offered to researchers, policymakers and advocates for further discussion, thought, and finally action about making women's retirement more secure in the future.

Introduction: As we think about financial security in retirement, we need to focus on:

- Social Security
- Tax code and other legislative provisions that spur coverage and benefits
- Employer-sponsored retirement programs (including defined benefit and defined contribution)
- Individual saving
- Health care
- Long-term care
- Financial products that help individuals and employers implement plans and programs
- What one person can do

These things need to work together. This blueprint provides some key facts and policy recommendations to help improve security in retirement for women.

KEY FACT:

For more than 40% of older women living alone, Social Security is virtually all that they have. This group is four to five times as likely to be poor as are married couples. ■

Protect, Preserve and Strengthen Social Security

- Preserve Social Security as an income-based social insurance system.
- Improve benefits for low-wage workers—those with very low benefits are primarily low-wage unmarried and widowed women.
- Modernize divorce benefits.
- Study ways to offer retirement protection to women with significant time spent as caregivers, including the provision of Social Security credits.

Increase Security for Women Living Alone in Retirement

- Study ways to improve pension division upon divorce.

Protect Low- and Moderate-Income Women

- Expand and simplify the Saver's Tax Credit to provide a more meaningful financial incentive for moderate- and lower-income workers to save for retirement.
- Make sure that asset limits in means-tested programs do not penalize lower-income workers who save for retirement.
- Address spiraling health care costs, including the cost of long-term care.
- Improve Medicare's prescription drug benefit and maintain adequate Medicaid benefits for dually eligible seniors.

KEY FACT:

The benefits of changes in tax policy over the last several decades have shortchanged low- and middle-income wage jobs, where women predominate. The after-tax income in the last three decades has increased by only 15% for those in the middle, and grown by only 5% for the lowest fifth of the population. This has been a major impediment to women's efforts to acquire assets. ■

Support tax initiatives that provide incentives for low- and moderate-income workers to build wealth

- Support and expand programs that help working families and women, such as the Earned Income Tax Credit, Saver's Tax Credit, education spending, tuition assistance, tax deductions for childcare and medical expenses, and the Children's Health Insurance Program.
- Make sure that changes in income tax policy are progressive and promote growth of assets in moderate-income households.
- Support and expand financial education programs provided by government, employers, and financial institutions.

KEY FACT:

While Americans are living longer each year (about one year longer per decade), there has been a shift away from benefit plans that promote a guaranteed lifetime income. Americans regularly underestimate longevity and many do not understand how to create lifetime income. Opportunities for longer work are often limited. ■

Enable Later Retirement and Support Better Work Options

- Provide more support for phased retirement, including pension protection, age discrimination act safe harbors, and clarification of the basis for rehiring retirees.
- Remove disincentives in private benefit programs that reduce the payoff for retiring later.
- Study the interaction of increasing longevity and retirement ages, and develop a dynamic system to keep retirement ages in step with greater longevity.
- Promote incentives for older workers to continue working and improve employment training and retraining programs to better serve older workers.
- Adjust retirement ages as a way to keep Social Security in balance as a system that pays lifetime income, while fully protecting Social Security's disability benefits.

Encourage Annuitization

- Revisit the minimum distribution rules and their interaction with desirable asset management strategies, including the possibility of the equivalent of dollar-cost-averaging in annuity purchases.
- Support and encourage the continued availability of retirement plans and products with risk-protection features, such as lifetime income.
- Encourage annuities as an investment and distribution option in defined contribution plans and IRAs to address the need for basic spousal protections.
- Enable employers to offer life income as the default method of payment in defined contribution plans that offer a choice of payout method. Enable employers to include an option that provides for conversion of part of the balance to an annuity over a period of time.
- Align state laws on risk protection products with federal law on employee benefits to enable more employer use of risk protection features in benefit programs.

Encourage Financial Product Innovation

- Support development of new products including combining income and long-term care.
- Encourage the development of new annuity products based on the unique needs of baby boomer women.
- Support development of longevity insurance.
- Make sure federal and state tax laws do not create barriers and disincentives for employers and individuals that discourage purchase of financial products that enhance retirement security. Focus on how low- and middle-income workers are impacted by these incentives.
- Support study and demonstration projects for innovative proposals to expand affordable health care coverage including new risk pools, expansions of Medicare and Medicaid, COBRA and tax credits.

KEY FACT:

Individuals with employer-sponsored benefit plans have a much better chance of achieving a good retirement income than those who do not have such plans. People are much more likely to save when they have access to employer-sponsored plans than when they have to do it on their own. Traditional pensions have been declining and are largely being replaced by defined contribution plans that require personal savings to produce at least part of the benefit. ■

Support Employer Plans, Make Adjustments to Recognize the Difference in Men's and Women's Employment Experience and Support Individual Savings

- Enact pay equity legislation to enable women to save more and earn more adequate benefits.
- Encourage employers to offer a retirement program, either defined benefit or defined contribution, and make it easy for employers to do so.
- Lower vesting requirements to four years to align with women's average job tenure.
- Extend pension and retirement savings plan coverage to part-time and temporary workers.
- Enact legislation to provide payroll deduction IRA savings opportunities to the millions of workers who have no access to retirement savings plans.
- Support and encourage the continued sponsorship of defined benefit pension plans or a more portable plan with similar risk-protection features.
- Support and encourage new risk-sharing options.

KEY FACT:

Retirement security today, with or without an employer program, often depends on individuals participating by saving their own money, and on individual choices about how to manage retirement. At the same time, there are major gaps in what people know and in how they act on what they know. Many people simply follow default options in the programs they are eligible for, whether that means joining or staying out. ■

Support Both Effective Education and Good Default Options

- Congress should continue to encourage employers to offer meaningful and appropriate financial education programs and assistance.
- Government and foundations should act together to support efforts of non-profit and grassroots organizations to offer financial education in local communities, particularly those programs that target at-risk populations.
- Bring financial education into the elementary schools.
- Congress should also enable the expansion of default options that make plans work reasonably well for those who elect not to make a choice.

KEY FACT:

Women provide the majority of the caregiving in this country. During the time they are caregiving, they are often not saving for retirement, and caregiving hurts both their Social Security and their pension protection. ■

Support Recognition of Caregiving as Valuable to Society

- Encourage employers and public programs to support caregivers with programs such as referral services, support groups, and respite care.
- Study ways of offering better retirement protection for women with significant time spent as caregivers, including changes in Social Security benefit calculations.

KEY FACT:

Health care is a vital part of retirement security. There are still major gaps in Medicare, particularly in the area of long-term care and prescription drug coverage. Fewer people have employer retiree health plans. Early retirees have a great deal of difficulty obtaining affordable coverage if there is no employer plan. Most people are not prepared for the substantial costs of long-term care benefits. ■

Improve Access to Affordable Health Care

- Study ways to provide health care to early retirees with risk pooling, innovative purchasing arrangements, tax credits, buy-ins to government programs or other innovative proposals.
- Study ways to reduce health care costs, including prescription drug costs.
- Study ways to make long-term care more widely available and affordable.

To send WISER your comments on this Blueprint

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Highlights: Thought Leaders Respond to Issues About Women's Retirement Income Security

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Methodology and Participants

On behalf of the MetLife Mature Market Institute, in collaboration with WISER, Mathew Greenwald & Associates conducted 30 in-depth telephone interviews with thought-leaders in the retirement field. They included representatives of public sector and private sector organizations, academic researchers, and advocacy organizations. Respondents were selected from among a list of leading thinkers who have been invited to attend the Women's Retirement Security Roundtable in May 2008. This list was supplemented by some experts who could not attend the Roundtable, but whose research and perspectives are considered valuable.

Focus of Research

The interviews focused mainly on the challenges women face in the income stage, the time after the point of retirement when they have to manage their accumulations and expenses to maintain financial security. In view of its importance leading to this stage, issues in the accumulation stage were also addressed. Questions were asked about the challenges women tend to face in obtaining financial security and what employers, government, financial services companies and others should or could do to help women become more financially secure.

Areas of Recommendations

The thought-leaders made recommendations for actions to enhance women's financial security in retirement in a number of areas, including education and advice, utilization of financial products that protect them against uncertainties, the use of defaults in defined contribution plans, Social Security, tax policy, health care, and the roles of employers, the government and the financial services industry. There was certainly not consensus on every issue and concerns or opposition to specific ideas will be reported in the full discussion of findings.

Challenges Women Face Regarding Financial Security

None of the numerous challenges women face in retirement security were as frequently mentioned or universally emphasized as longevity risk. Women, on average, have a longer life expectancy than men, and the experts interviewed agree this poses a unique set of challenges including loss of income when husbands die, lower likelihood than men to have a caregiving spouse, and having to bear final costs caused by husband's death. Some thought-leaders remarked that caregiving responsibilities, both for children and elderly parents, have implications, not only for the amount of income women earn over their lifetime, but also for the amount of Social Security benefits these women will be eligible receive. Additionally, many women underestimate health care costs in the retirement period, which tend to be higher for women than men.

Education and Financial Advice

Women's level of knowledge on how to manage money in retirement and investing and finances in general is considered to be a significant problem. The interviewees bring forward a number of ideas to address this, including: Workplace sponsored qualified financial planning advice; clearinghouse for reliable, unbiased financial information; better online financial planning tools; and simplifying products from financial services companies

Some thought-leaders believe that default programs, such as auto-enrollment are valuable because they contribute to positive behavior while limiting the need for informed decision-making.

The Role of Government

The experts interviewed suggest a variety of actions the federal government could undertake to help enhance women's financial security in the income stage, including industry regulation, Social Security reforms, and changes to tax policy that could further retirement security for all, and especially women.

Annuitization

Most, but not all thought-leaders believe that a large share of women should make more use of annuitization as an effective vehicle for providing lifetime income and protecting women against outliving their assets. Interviewees put forward several ideas about how to encourage more women to annuitize including both required and optional approaches for both employers and employees. There are a number of concerns about annuitization. Most of these concerns are about the inflexibility of the product.

Default at Retirement

There is considerable support among respondents for the idea of defaulting defined contribution plan participants, at retirement, into an asset allocation designed for the retirement stage. Some believe that asset allocation should include annuitization of at least a portion of their money. However, this support is not universal; there are certainly concerns about defaults at retirement including product issues, administrative concerns, and portability.

Spousal Consent

The experts interviewed express a diversity of views about spousal consent. Several are content with the current rules and feel it is not an issue. Some feel that consent should be required in defined contribution plans regardless of the chosen distribution option, while others feel that spousal consent requirements are an impediment to certain employee options.

Social Security

At the broadest level, one thought-leader stresses that the most important thing the government can do regarding Social Security is to resolve the long-term funding issues the program is facing now, so that younger generations do not end up bearing too much of the burden. Mentioned most often, many interviewees suggest that the Social Security system needs to be adjusted to account for and give due credit to women who spend time out of the workforce for caregiving purposes. Caregivers, several agree, need a way to contribute to Social Security, even if they are not in the workforce.

Tax Policy

Most thought-leaders interviewed indicate that tax initiatives that encourage people, and especially women, to save money for retirement are beneficial. For example, a handful recommends increasing the Savers Credit and making it refundable. In keeping with the emphasis many placed on addressing caregivers' needs, many respondents voice their support for a caregiver tax credit.

Tax Policy and the Role of the Employer

Respondents are almost evenly split on the effectiveness of using tax incentives to encourage annuitization, and even savings in general. A handful have concerns that tax incentives are already overused, others comment that tax incentives will not help lower income individuals while others believe that it would be beneficial for more women to own annuities and that tax incentives can be effective in encouraging annuitization.

The Role of the Employer

Thought-leaders tend to believe that employers have a central role in the financial security of women, with numerous programs and actions that the thought leaders feel employers should provide, although some also raise concerns about the role of employers regarding programs for women. One interviewee states that it is difficult for employers to make distinctions between men and women when discussing retirement; employers are afraid of sex discrimination. Along the same lines, another respondent voices concern that employers may expose themselves to too much fiduciary risk, depending on the retirement options they provide to employees.

Changes in Defined Contribution Plans

Thought-leaders proposed a number of ideas for redesigning defined contribution plans to help provide more financial security to women. Some of the suggestions are structured around expanding the amount of coverage that women can achieve by stretching defined contribution plan coverage to include people typically unable to participate in these plans. Other suggestions include automatic enrollment, annuitization and other lifetime income options, and default options among many others.

The Role of the Financial Services Industry

Most thought-leaders interviewed believe that financial services companies should be encouraged to (1) develop simple, transparent products and (2) enhance their communications with women, including marketing products to them with messages that speak directly to them and their unique needs.

Long-Term Care Insurance

A number of financial products were mentioned during the course of the interviews in addition to annuities. No non-annuity product was mentioned more often than long-term care insurance. While some thought-leaders think that long-term care insurance should only be bought by affluent people, others feel that women tend to under-utilize long-term care insurance and that more purchases of long-term care insurance should be encouraged.

Other Product Ideas

Mechanisms related to 529 plans, IRA accumulations, and inflation indexed bonds were among other product solutions suggested

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Planning for Retirement – Asking the Right Questions
Personal Questions to Ask by Life Stage

Introduction

With the shift to more personal responsibility for retirement planning, individuals are faced with a complex and often bewildering set of issues to deal with. In the long run, financial planning should balance savings and investment management with overall risk management. Often, the risk management part is forgotten or takes a back seat as retirement planning is viewed purely as a savings and investment matter. And, for a successful retirement, financial planning needs to work hand in hand with matters related to how and where one plans to live and with managing one's health.

This material provides a list of questions, categorized by life stage. It can be viewed like a checklist of things to think about. There are many questions and most people will need to set some personal priorities.

- If you have no assets yet, getting started with saving is probably priority one. Investing assets only becomes important once you have assets.
- If you have a lot of debt, managing it and getting rid of it ought to be a priority.
- For people with jobs that provide good health benefits, life insurance, and disability insurance, setting up a personal risk management program will be a priority as retirement nears.

This material is mostly about financial planning, but it also includes some questions about life planning, housing and health.

The purpose of this material is to help the reader answer the following questions: Am I asking the right questions? Is my advisor addressing the right issues?

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Questions that apply at all ages
• How much do I need to save? • How do I invest my money? • What do I do to maintain my health? • How can my employee benefits enhance my retirement planning? • If I am married or considering marriage, how do I make planning work for my spouse as well? • If I get divorced what is the right way to handle benefits and what do I need to think about? • What risk management program do I need? • How do I manage my debt and avoid getting into too much debt? • How long term should I be thinking? • How do I budget effectively? • What do I need to do to keep track of my assets and liabilities? • What advisors and advice do I need? • Do I understand the tax issues that affect me, and do I have a strategy to be tax-smart? • Are desirable legal documents (such as a will and health care power of attorney) in place and up-to-date?

Questions that apply early in a career
• When do I need to start saving? • How much should I save? • How do I effectively take advantage of employee benefit plans? What is a 401(k) (or 403(b)) plan, and how should it be used? • What should I think about with regard to pensions when I take or leave a job? • Should I set up an IRA? • Should credit card debt be repaid before I start saving for retirement?

Questions that apply mid-career
• How do I effectively take advantage of employee benefit plans? • What should I think about with regard to pensions when I take or leave a job? • When should I look at long-term care insurance, and should I buy it? • Where do I stand with respect to having enough money to retire, and at what age can I afford to retire? • Do I have adequate protection in case I become disabled or a family member needs help?

Questions that apply from age 50 to time of retirement
• When would I like to retire and/or start to phase down? • Have I defined my retirement dreams? • Do I have a plan for meeting my retirement dreams? • Do I know where I want to live, and do I have a plan for making that happen? • Do I want to work in retirement, and if so, what should I be doing to create options and opportunities? • Where do I stand with respect to having enough money to retire, and at what age can I afford to retire? • Do I need to increase my savings? • Do I have adequate protection in case I become disabled or a family member needs help? • What risks will I need to be concerned about in retirement, and how do I get a risk management program in place? • Do I expect to relocate at retirement? • When do I plan to claim Social Security? • Do I have a back-up plan if my job is phased out before I am ready to retire?

Questions that apply at time of retirement
• What methods of payment will I choose from employer provided pension benefits? • How will employer provided defined contribution funds be paid to me? • Can I roll over amounts paid to an IRA? • What about any nonqualified plans? • Do I have plan for addressing post-retirement risks? • Some people will live to age 100. Have I considered that possibility, and will my plan work if I live to a very high age? • Should I plan to annuitize some of my money? How much and how? How do I decide what the right amount is? • Is my spouse protected in the event of my death? • Do I have health coverage in retirement? If not, how can I get it? • Is my spending level aligned with my lifetime financial resources? • If I want to work as part of my retirement, do I have a strategy for getting a job?

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Questions that apply soon after retirement (the go-go years)
• What should I do to meet my retirement dreams? • Have I decided what is most important in my life? • Have I reviewed my investment strategy in light of the emerging time horizons? • If I need to use some of my savings to live on, what account should I withdraw from first? How do I determine how much I can safely withdraw? Have I considered my cash flow needs in setting my asset mix? • Do I have a plan for addressing post-retirement risks? • Is my risk protection program working, and does it need fine-tuning? • Am I meeting my goals with regard to working, and do they need fine-tuning? • What is working well for me, and what is not? • Do I want to relocate? • How are my assets progressing from period to period? • What measures have I taken to be sure that I will not outlive my assets? • What provisions are in place to pay for unexpected medical costs and for long-term care costs? • Is my spouse provided for? • Have I claimed Social Security or determined when I plan to claim it, or how I plan to evaluate the decision? • Should I move into a CCRC? If so, which one? • Should I take out a reverse mortgage?

Questions that apply in the middle years of retirement (slow-go)
• Do I have advisors or family members in place to help me manage my money and provide daily assistance should I need it? • Do I need to move or will I need to move? Have I evaluated the options available, their cost and my preferences so that I can choose where I want to go? Have I considered issues such as access to friends, family, transportation, and activities? • If I managed my own money previously, do I have a transition plan that will move the management to someone else when I can no longer manage? • Does that person understand and know my wishes?

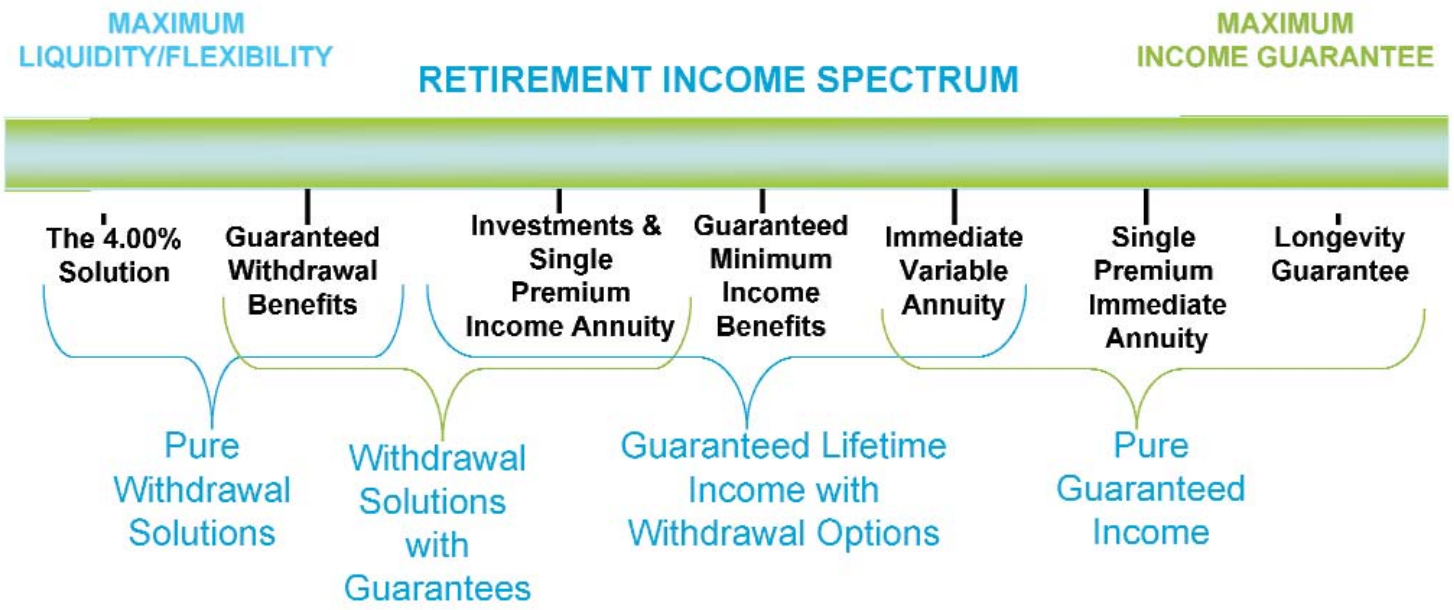
Women's Retirement Income Roundtable
by Roberta Rafaloff, Vice President, MetLife

The Women's Retirement Income Roundtable

Roberta Rafaloff
Vice President, MetLife
May 13, 2008

MetLife

New Paradigm: Range of Income Products



- ⇨ Must educate on each option and the trade-offs involved
- ⇨ No absolute right or wrong choice
- ⇨ Over time, perspective may change and move along the spectrum
- ⇨ Some will likely implement combinations, but many may use a one product approach

2

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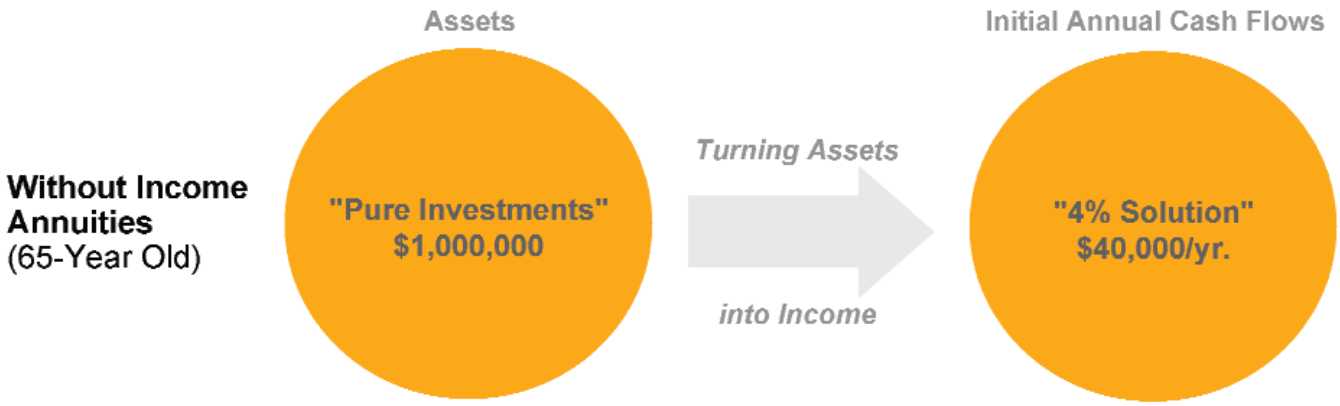
Pure Investments: No Guarantees



Figures, calculations, and illustrations are for illustrative purposes only. They are based on hypothetical rates of return and do not represent investment in any specific product. They may not be used to predict or project investment performance. Unless noted, charges and expenses that would be associated with an actual investment are not reflected.

3

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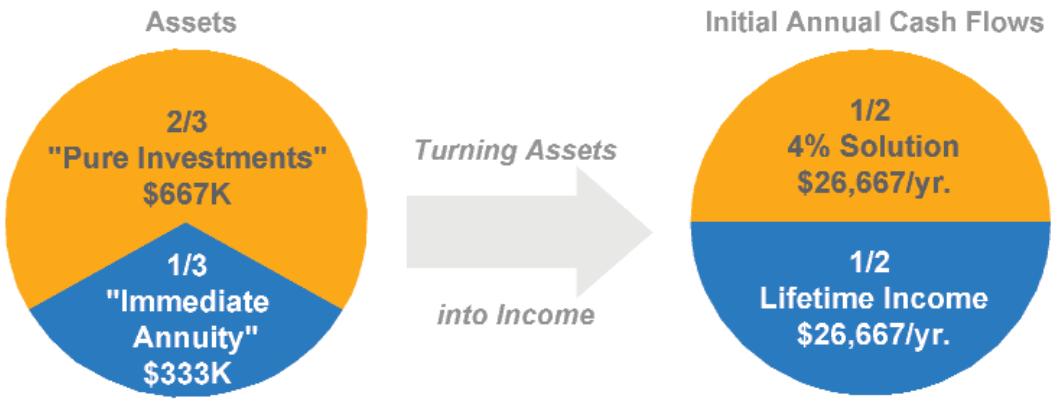
Income Annuities Can Effectively *Complement* other Retirement Income Solutions

With Income Annuities
(65-Year Old)



Withdrawals from investments are assumed to increase with inflation at a rate of 3% annually. They are based on hypothetical rates of return and do not represent investment in any specific product. Unless noted, charges and expenses that would be associated with an actual investment are not reflected. Investment values may fluctuate with changes in market conditions, such that there is a risk of loss. There is a risk that withdrawals from investments may deplete the investments during your lifetime. Income from the fixed immediate income annuity is: guaranteed for the annuitant's lifetime, does not increase with inflation, and is based on a hypothetical payout rate of 8% of premium per year for a 65 year old male or 66 year old female, however the payout rate may be higher or lower depending on the date such instruments are purchased. In this example, the income annuity has no cash value, and in the event of the death of the annuitant, no death benefit is paid because of the lifetime annuitization option elected.

MetLife

Income Annuity Benefits

- **Guaranteed Lifelong Income**
- **Fixed Payments that Never Change**
  - Regardless of market conditions
- **Withdrawal Feature**
  - Full or partial
- **Full Range of Income Payout Options**
- **Return of Premium Guarantee**
- **Inflation protection options**
- **Death Benefit**

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Summary of Presentation on Retirement Income Management
Donna Hanlon, Vice President & Associate General Counsel
Fidelity Investments

Companies are interested in solving the problem of how to help individuals take their lump sum and convert it into a stream of payments that will last as long as they do. Fidelity has introduced a product known as the income replacement fund.

The popular name for this type of fund is a managed payout fund—the idea is to help retirees spend down their assets in a way that they will receive monthly payments but those payments will keep pace with inflation over the life of the fund. They are designed to answer the questions raised by this roundtable discussion:

- How long will my savings last?
- How much should I withdraw from savings?
- Will it be enough to support an income payment for a certain time?
- Will it keep pace with inflation?

These new funds work in many respects like life cycle funds, but they have a target date that reflects when an individual needs to receive the last payment. They are meant to provide an alternative to the products that are available.

- If the fund does well, the payouts are greater, but if the fund does not do well, the payouts may be lower.
- Product is also not guaranteed, so there is a risk.
- Very flexible – money remains accessible.
- Allows opportunity for growth.

WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

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