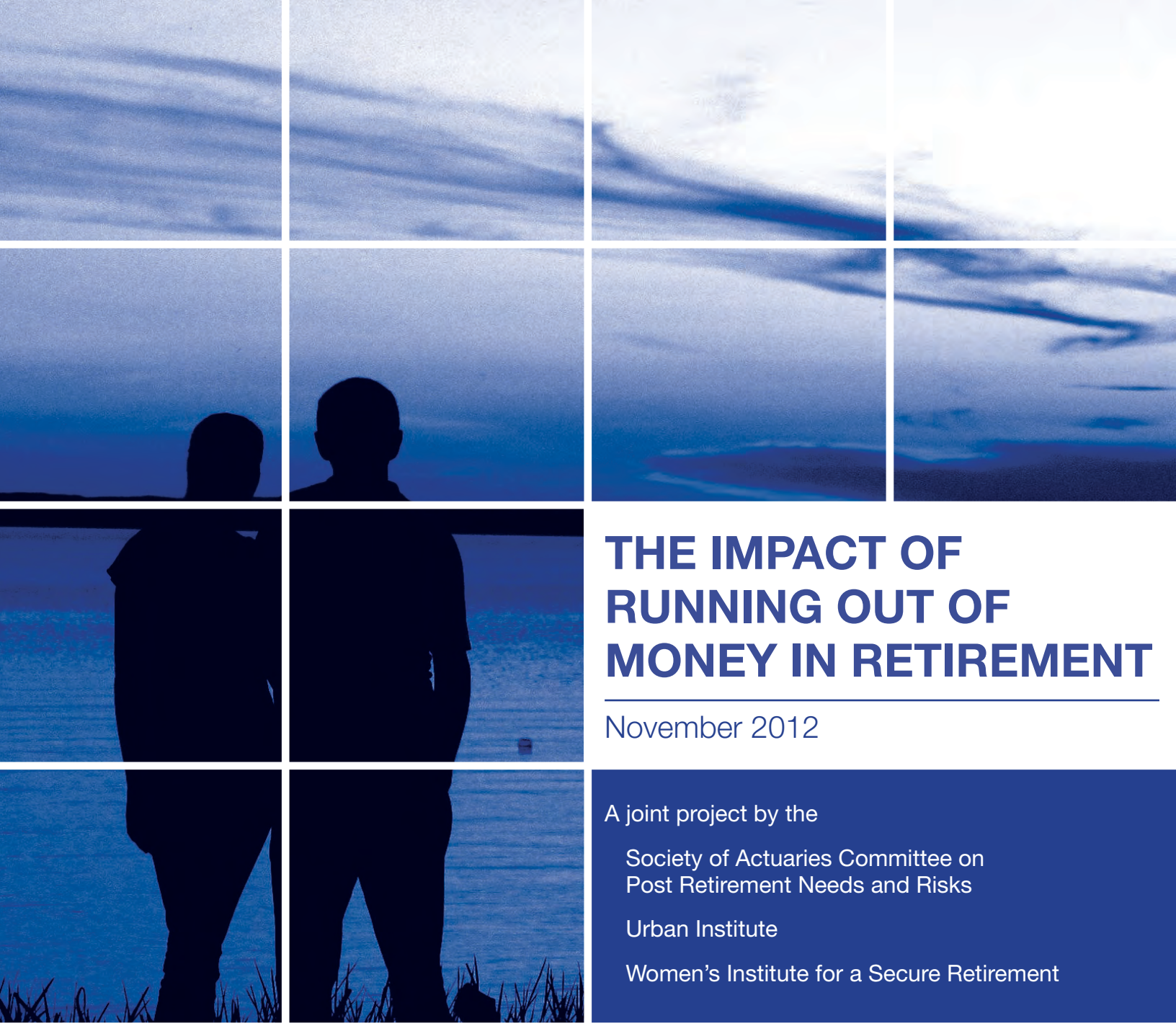


THE IMPACT OF RUNNING OUT OF MONEY IN RETIREMENT

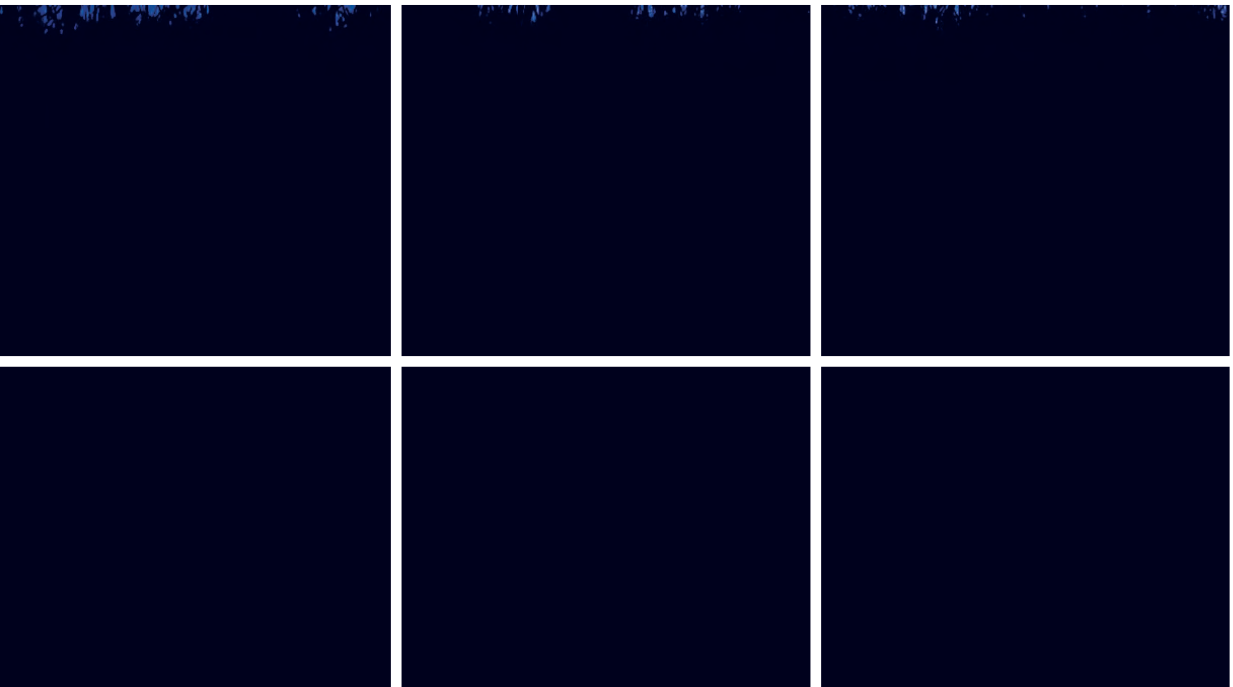
November 2012

A joint project by the

Society of Actuaries Committee on Post Retirement Needs and Risks

Urban Institute

Women's Institute for a Secure Retirement



URBAN INSTITUTE

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Introduction

According to data recently released by the Federal Reserve, the median net worth of families has dropped by 39% in just three years between 2007 and 2010, with the downturn having the greatest impact on the middle class.[1] During this same period, both median and mean income fell as well (down 7.7 percent and 11.1 percent respectively). In addition, many families experienced significant declines in their home values—a large part of the resources for many Americans nearing retirement.

There is no denying that the aging of the population, the decline of the defined benefit pension plan, the stress the growing number of retirees will put on our social benefit systems, the potential for unanticipated personal, political and economic events near or after retirement, and the struggling world economy have created growing and unanticipated challenges to an individual's ability to manage his or her financial resources for the duration of retirement. Today's retirees are facing higher costs for fuel and food, an increasing share of growing medical costs, and lower housing values. How will they manage their retirement income given these pressures? What options are available to them to help them adjust to these changes?

For many Americans, retirement, once viewed as a time of relaxation, travel and enjoying life with family and friends, has evolved into a time of financial uncertainty and fear. In a poll of over 3,000 people ages 44 to 75, more than three in five (61 percent) said they feared depleting their retirement assets more than they feared death.[2]

Identifying Knowledge and Action Gaps

The current state of affairs caused the sponsors of this study to wonder, what do we know about the risk of retirees running out of money during retirement and how widespread is that risk? What is at the root of the risk? Are we facing a crisis of individual planning or a broader failure of employee benefit plans and public policy? And most importantly, how should the government and private industry respond to minimize the risk going forward?

The purpose of this study is to identify research and practical work that will help:

- Identify what causes people to deplete their retirement resources
- Understand the risk factors that are behind these events
- Quantify the risk, if possible
- Identify emerging trends, areas for further research, and possible solutions

This study seeks to understand what has already been done to date to determine how many people are at risk, how great that risk is, and what can be done to minimize it. In addition, this report explores solutions that may lay in changing individual behaviors. Since much of what happens in preparation for and during retirement is up to an individual, we want to understand what we know about individual behaviors and how we can influence them. In addition, it should also be recognized that solutions might lie in new public or employer policies or in new products for the marketplace. Although there have been some new products entering the market in recent years—like late retirement, or so-called longevity insurance—the development of new solutions has been slow and may be hampered by complex government regulations.

Approach

To more fully understand the issues and opportunities, a group of diverse experts was convened to review current research and identify gaps in knowledge where more research is needed. We asked this group to share their expertise and then to select areas of possible solutions. Working in small groups, they identified specific problems and areas that need further exploration. This paper summarizes that process, the ideas that emerged, and some additional ideas from the sponsoring organizations.

The Society of Actuaries Committee on Post Retirement Needs and Risks (CPRNR), the Urban Institute and the Women's Institute for a Secure Retirement (WISER), invited a group of experts from across several related disciplines to meet for a one-day brainstorming session to share research and consider the impact of individuals running out of money during retirement. These attendees included academics and practitioners in the areas of government policy, actuarial science, and financial services. The latter group included financial educators, financial planners and experts in the areas of annuities, Long-Term Care (LTC) and other insurance products. In some cases, the group represented diametrically opposed views on how to address risk. A list of attendees is included in Appendix A.

Those invited to attend were asked to consider the list of questions in the box to the right as they prepared for the meeting. Participants were invited to share their perspective with the group via brief presentations.

In advance of the meeting itself, participants were also asked to share pertinent articles and resources as pre-reading for the group. An annotated bibliography of selected documents and web links, with a brief summary of each, is included in Appendix B.

A facilitator trained in methods of problem solving and break-through thinking led the session. The overall flow of the session was designed

PRE-SESSION QUESTIONS

1. What are the experiences of retirees who have come close to exhausting or who are expected to exhaust their resources and what are their coping mechanisms?
2. Do retirees run out of money mainly because of a shock event or is it a gradual process? At what point does this most often happen? What studies have looked at this and what were their findings?
3. To what extent has fraud or financial abuse contributed to individuals running out of money?
4. Does failure to plan contribute to individuals running out of money?
5. Do people run out of money due to bad advice or lack of planning skills or advice?
6. Does too short a planning horizon contribute to problems later?
7. Does retiring too early contribute to problems later? Do outcomes differ depending on whether retirement is voluntary or involuntary? How does work factor in?
8. How often do people experience a major decline in living standard due to retirement?
9. Has there been any evaluations of different drawdown and annuitization strategies in retrospect?
10. Health care and other expenses can be catalysts for depleting assets. What are the implications of the structure of the Medicaid program? What about other public programs with strict needs testing?
11. What alternative courses of action would have produced a better result? And how do we encourage people to take better courses of action?
12. What real life examples and case studies are available?

to create an open atmosphere for group synthesis and innovation.

Attendees were asked to share what they felt was the most pressing issue, and several individuals presented their research or perspectives on the current environment. Key issues discussed are reflected in this report.

Search for Answers

THE ECONOMIC FOUNDATION FOR THINKING ABOUT RETIREMENT PREPARATION

The foundation for thinking about running out of money lies in the theory and in the analysis of some extensive population data. The most common metric for assessing the adequacy of economic preparation for retirement is the income replacement rate, the ratio of income after retirement to income before retirement. Many researchers argue, however, that consumption is a more appropriate measure than income for measuring economic well-being. This is because incomes most certainly will decline in retirement. Yet if retirees can maintain their pre-retirement levels of consumption, then they are no worse off. Thus, instead of comparing incomes before and after retirement, the real question is whether individuals have the economic resources to consume at the same level before and after retirement. Further, both assets and income should be considered in measuring the adequacy of resources.

In a working paper for the National Bureau of Economic Research (NBER), Hurd and Rohwedder assess whether individuals are financially prepared for retirement based on a complete inventory of economic resources while taking into account the risk of living to advanced old age and the risk of high out-of-pocket spending for health care services. They define a consumption replacement rate as the amount by which consumption could be increased in the case where economic resources are more than adequate, or the amount by which consumption would have to be reduced in the case where economic resources are inadequate.

Their analysis is based on a sample of 66-69 year-olds in the Health and Retirement Study and its supplementary Consumption and Activities Mail Survey. In their simulation modeling, they account for taxes, widowing, differential mortality and out-of-pocket health spending risk. Their findings highlight major differences between single and married adults:

- They find that 71% of older adults are adequately prepared for retirement according to their definition, but that outcomes vary substantially by marital status—80% of married adults are adequately prepared compared with only 55% of single adults. This assumes a 10% reduction in consumption. Without a 10% reduction in consumption, they find that 77% of married couples and 49% of single adults would be adequately prepared.

- They also find that outcomes differ substantially by other demographic characteristics. For example, only 29% of single older women without high school degrees are adequately prepared for retirement, even after reducing consumption by 10%.[3]

RISKS WOMEN FACE

The term “lifetime” takes on a whole new meaning for retiring women. Millions of women will live a third of their lifetimes after they reach their 60s. Thirty years is a long time to make savings last, putting women at high risk for poverty in old age. Many women will start retirement with fewer savings than men because of factors operating throughout their working lives that affect their ability to save and build assets. Factors such as earnings, marital status, and the interruption of work history or working part-time to accommodate family responsibilities will affect their future retirement income. As they age, they are also likely to have more incidences of chronic illness and will need additional funds to pay higher expenses for health care and prescription drugs.

Running out of money in retirement is too large of a risk to self-insure. Women, maybe even more than men, need the best information and tools to help them determine how much income they will need, where the money will come from and how to make it last. They need access to safe, affordable lifetime income products and for system stakeholders to recognize the magnitude of the problem.

Over the years, WISER has worked to quantify these risks and identify these solutions and a sample of that work can be found in their publication "How Can Women's Income Last as Long as They Do?"[4]

INSUFFICIENT SAVINGS AND ASSETS

The economics of households nearing retirement help define their most important risks and the decisions they face. In previous work, the Society of Actuaries (SOA) has defined the middle market as a group spanning the 25th to 85th percentiles of wealth in the American population. For those aged 55-64 in this group, non-financial wealth, most often housing, has made up about 70% of total wealth. Consequently, older adults in the middle market have been hit particularly hard by the recent decline in housing values.[5]

Exhibit 1

Wealth of Middle Income Households – Age 55 to 64
Analysis based on 2004 Survey of Consumer Finances

Household Type	Number of Households	Median Income	Est. Median Net Worth	Non-Financial Assets	Financial Assets	Non-Financial Assets%
Middle-mass Household Segments (25% to 75% of all households)						
Married	5.2 million	$75,000	$348,000	$240,000	$108,000	69%
Single Female	2.5 million	$28,000	$111,000	$ 75,000	$ 36,000	68%
Single Male	1.4 million	$41,000	$125,000	$ 89,000	$ 36,000	71%
Middle-affluent Household Segments (75% to 85% of all households)						
Married	1.0 million	$132,000	$1,300,000	$884,000	$416,000	68%
Single Female	.5 million	$ 58,000	$ 415,000	$299,000	$116,000	72%
Single Male	.3 million	$ 79,000	$ 465,000	$349,000	$116,000	75%

Note: Financial assets exclude the value of defined benefit pensions and Social Security. The data for this analysis did not include expected pension benefits, although for retirees, pension income and Social Security benefits are included in net income once payments begin. The analysis provides median values for the segments, and does not explore individual variations.

In addition, the recession has had a significant impact on the ability of individuals to save. One-third of the respondents in a 2011 study by the Insured Retirement Institute (IRI) said they had stopped contributing to a 401(k), IRA, or other retirement account.[6]

NEED FOR INFORMED, INTEGRATED DECISION MAKING

Over the past two decades, the continuing shift toward personal responsibility has placed increased pressure on individuals. Those retiring today represent the first waves of retirees in the defined contribution (DC) era. Even retirees from the auto industry, where the defined benefit (DB) plan had a long, strong history, are facing major changes. GM has announced recently that they will terminate plans for existing retirees, forcing them to choose between lump sums and insurance-company-provided annuities for their remaining benefits. Ford is offering lump sums to those retirees who choose them and continuing monthly income within the plan to those who do not.

The prevalence of DC plans places the major responsibility for distribution decisions on the individual. Many plan sponsors are concerned about fiduciary risk and, therefore, are limiting conversation and education about distribution decisions in order to limit their exposure. As the Executive Office of the President's Council of Economic Advisers said in its February 2012 report on Supporting Retirement for American Families, "The combined effect of increased 401(k) popularity and more frequent lump-sum distributions is that workers increasingly are exposed to market, inflation, and, in particular, longevity risk that threatens their retirement security when lump-sum assets have become exhausted." [7]

Given the continued importance of individual responsibility in accumulating and managing retirement assets, there is a greater need than ever before for education and guidance. Individuals who do not fully understand their situation can be unduly influenced by emotions. For example, as the Hueler Companies noted in its written statement to the United States Senate Special Committee on Aging in June 2010, research indicates that retirement decisions are often influenced by behavioral factors—such as fear of the unknown, lack of trust, and desire for control. [8]

The shift to increased individual responsibility has placed more importance on the need for informed decision making. This may be especially evident in the middle-income group, who are resource constrained, and may not be able to afford impartial advice from planning experts. In addition, they may not have the information or skill to make the decision on their own. When it comes to pre-retirement financial decisions, they may be more likely than the high-income group to rely on friends, family, or the Internet for advice.

According to the most recent data from the Federal Reserve, as shown in Exhibit 2 below, more people turn to friends, family members, or associates for financial information than to any other source of information on borrowing or investing.

Exhibit 2

Information Used for Decisions About Borrowing or Investing, 2010

SOURCE	TYPE OF SERVICE	
	BORROWING	INVESTING
Calling around	27.0	15.7
Magazines, newspapers, and other media	14.5	14.4
Material in the mail	28.3	19.0
Internet	41.7	33.0
Friends, relatives, associates	43.9	40.8
Bankers, brokers, and other sellers of financial services	39.5	39.1
Lawyers, accountants, and other financial advisors	19.5	31.1
Does not borrow or invest	14.6	11.7

Note: Figures sum to more than 100 because of reporting of multiple sources

One third of families reported using the Internet as a source of information on investing. When viewed across categories of net worth, the data show similar patterns of use of sources of information by all groups (data not shown in the table).[9]

Many Americans have poor financial literacy, which creates a barrier to effective planning. The challenges to financial literacy are many:

- A lack of basic math skills
- Limited knowledge of investment products
- Failure to understand the impact of inflation and compound interest
- Misperceptions about longevity

Research shows that some people fail to plan and others plan for too short a time. None of the evidence provided in this study indicated whether people who use planning tools use them effectively or not.

Retirement age plays a critical role

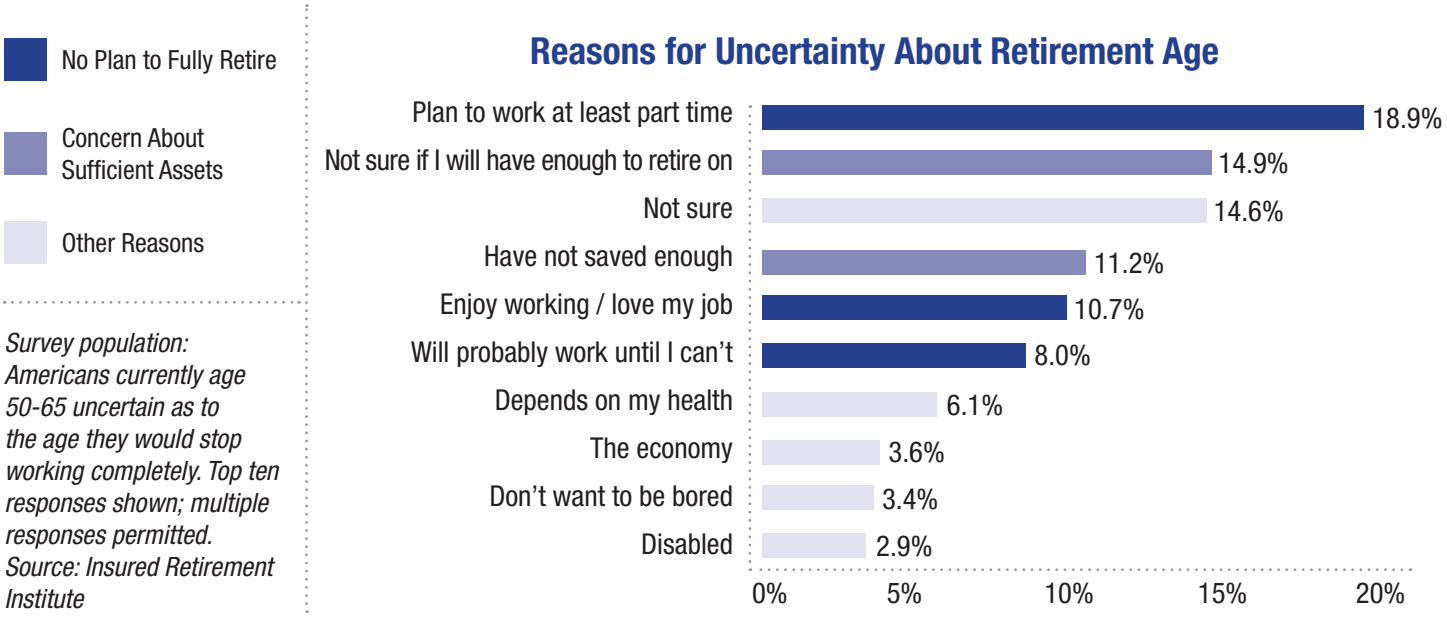
One of the most important decisions individuals face is when to retire. The Society of Actuaries 2007 and 2009 Surveys of Post-Retirement Risk indicate that many people do not fully understand the impact of retiring later, and that they underestimate the impact of working longer.[10] This survey data suggests the decision may be based on uninformed expectations. In addition, the decisions surrounding Social Security claiming age are misunderstood, especially by couples. Related to this, behavioral finance research can be used to provide insights into Social Security claiming age. An Urban Institute paper outlines many factors that affect behavior.[11]

When to retire: What people think

In the 2011 IRI survey noted earlier, two thirds of respondents identified a specific age at which they planned to retire. Of those, nearly a quarter cited an age that did not make them eligible for Social Security benefits.

And the reality is, almost half of Americans elect Social Security benefits as early as possible, resulting in the smallest possible monthly benefit, and often a benefit with a lower value over their lifetimes. The chart below (Exhibit 3) shows the reasons cited for the uncertainty about retirement age.[12]

Exhibit 3



Survey population: Americans currently age 50-65 uncertain as to the age they would stop working completely. Top ten responses shown; multiple responses permitted. Source: Insured Retirement Institute

Exhibit 4

Employment Rates by Age and Sex 1990 - 2011 (Shown in %)

Year	Non-Hispanic White	Men African American	Hispanic	Non-Hispanic White	Women African American	Hispanic
Ages 55 - 61						
1990	75.3	61.8	70.5	51.3	47.0	41.7
2000	73.8	62.1	72.7	58.5	53.9	44.4
2010	71.5	54.9	67.2	63.9	56.1	51.6
2011	72.4	58.2	67.8	63.7	55.4	51.8
Ages 62 - 64						
1990	46.0	36.8	39.4	30.2	28.0	27.5
2000	46.2	35.1	47.9	34.8	27.6	23.7
2010	52.5	35.3	44.0	44.3	35.8	38.0
2011	51.5	34.8	46.3	43.9	34.4	35.5
Ages 65 - 69						
1990	26.1	17.8	21.4	16.8	16.7	11.1
2000	29.9	20.2	30.3	19.6	18.1	14.7
2010	33.4	23.9	34.6	26.1	22.0	21.7
2011	35.9	25.7	31.1	26.2	24.6	23.0
Age 70+						
1990	10.8	8.9	7.7	4.6	5.4	4.2
2000	11.9	9.5	9.4	5.8	5.2	3.4
2010	14.4	11.2	14.4	8.1	7.8	6.7
2011	14.5	13.0	15.1	8.1	7.2	6.8

Source: Urban Institute Program on Retirement Policy calculations from the Current Population Survey (CPS) averaged all 12 months of the calendar year. The employment rate is the share of the civilian non-institutionalized population that is employed.

When to retire: What people do

As the data in Exhibit 4 from 1990 to 2011 reveals, most people (about three in four white men and three in five white women) were working between the ages of 55 and 61, and 15 percent of white men were still working after age 70. What is not clear is if those working at higher ages had ever retired and then gone back to work in the same or a different field. White men and women are more likely to work at older ages than African Americans and Non-Hispanic Whites.

The data also provide insights into trends. At ages 55-61, after long periods of declining labor force participation, white males have increased their labor force participation. White females have had increasing participation over this period at ages 55-61. At ages over age 65, each of the ethnic groups has increased labor force participation.[13]

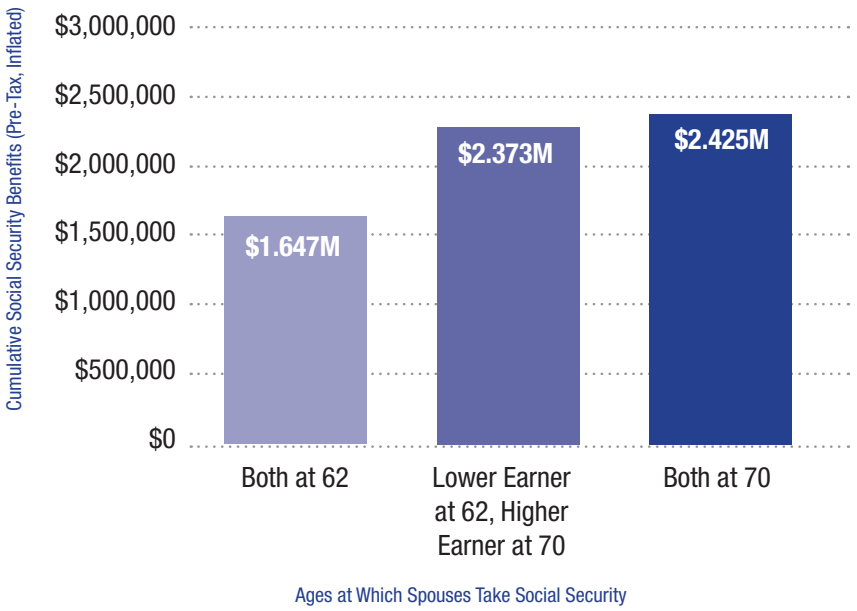
These numbers vary by education, race and ethnicity, which could suggest that there are both economic and cultural factors behind these trends. This, along with other work from the Urban Institute, indicates that labor force participation is also impacted by the overall health status of the individual, a factor discussed in more detail later in this report.

Exhibit 5

Social Security Benefits
Delaying Taking Payments Likely to Pay Off

Increasing Social Security Income Over Your Lifetime
Cumulative Social Security Benefits Under Different Claiming Scenarios

The ages that you and your spouse begin to collect benefits make a big difference in the total amount you will receive during retirement.



Assumptions: Both spouses currently age 60; Higher Earner salary assumed to be $100,000, Lower Earner $50,000; Higher Earner dies at age 80 (having received final benefit just before 80th birthday), Lower Earner survives until 95. All Social Security benefits shown in future value with assumed annual inflation rate of 2.8% Cost of Living Adjustment (COLA) after initiation. Initial Social Security benefit estimated in future value using the Quick Calculator (assuming a 0% relative growth factor) on the Social Security Administration's website. Source: T. Rowe Price & www.ssa.gov

Data presented by Fahlund, pointed to the benefits of delaying retirement. One factor she discussed was the interaction between Social Security benefits and the claiming age. The chart to the left (Exhibit 5) shows the positive impact that delaying retirement can have on Social Security income.[14]

A study from the Urban Institute indicates the impact on average annuity income by lifetime earnings quintile and additional work effort. This study shows that working just one more year could increase annual income by 9% overall, and by as much as 16% for the lowest earners (See Exhibit 6).[15]

When evaluating their financial needs and the sources of income, individuals who seek the help of a professional advisor may not get a full picture of their assets and risks. Advice available is sometimes product-oriented and/or may come from advisors with a financial incentive to point them toward specific solutions. They will often find that the planning exercise fails to consider risks such as poor health, disability, the need for specialized or long-term care, widowhood, and other unforeseen "shocks" that impact income needs.

Exhibit 6

Increase in Average Annuity Income from Working Longer

Lifetime Earnings Quintile	Increase from Working One More Year	Increase from Working Five More Years
Bottom	16%	98%
2nd Quintile	12%	71%
4th Quintile	8%	52%
5th Quintile	7%	42%
All	7%	42%

THE IMPORTANCE OF PLANNING FOR THE RISK OF "SHOCKS"

Even the best-laid plans can be derailed by an unforeseen risk or "shock" to the plan. Our experts agreed that shocks are a key factor in retirement income planning. Research by Johnson estimates that 67% of men and 70% of women age 70 or over will experience one or more shocks in a nine-year period.[16]

For example, the chart to the right (Exhibit 7) from the Urban Institute shows the likelihood of developing health problems that could derail even a well-planned retirement.

Given the current protection under Medicare and Medicaid, most of these events don't have a large impact on overall wealth during retirement, but the one, dramatic exception is entering a nursing home (Exhibit 8).

Couples are better off as a whole than single persons in old age. The death of a spouse will very often leave the surviving spouse less well off. However, Society of Actuaries research shows that many people are not aware of this. About 60% of the respondents in the Society of Actuaries Risk and Process of Retirement surveys indicate the survivor will be about as well off, and the remaining group is divided about equally between those who expect the survivor to be better or worse off. One of the background papers examines the pathways from two-person to one-person households and shows that this leads to declines in wealth.[17]

THE LEGAL STRUCTURE IS AN IMPORTANT PART OF THE MIX

The legal structure has an impact on the structure of financial security programs and their delivery. It defines Social Security and places many requirements and constraints on employee benefit programs, financial security products and the delivery of advice.

Exhibit 7

Nine-Year Incidence of Own and Spouse Negative Shocks by Baseline Marital Status, Age 70+

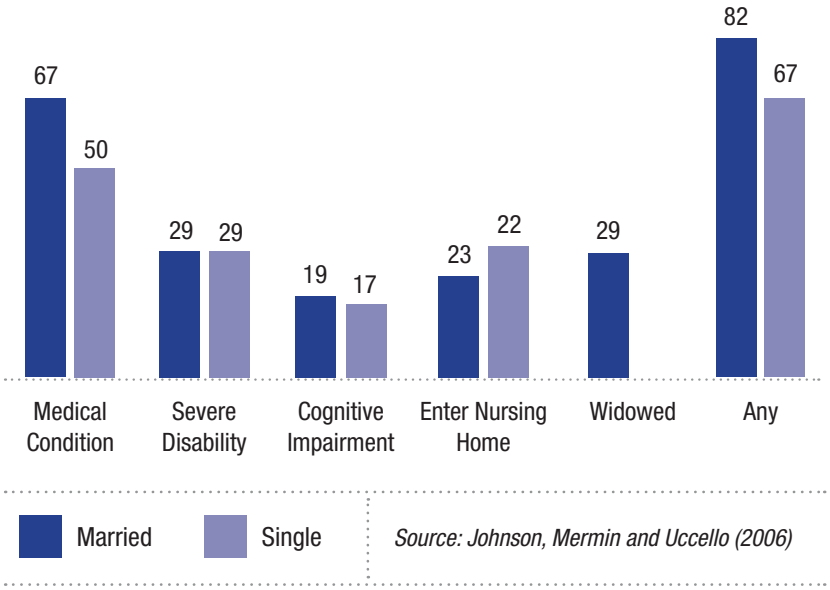
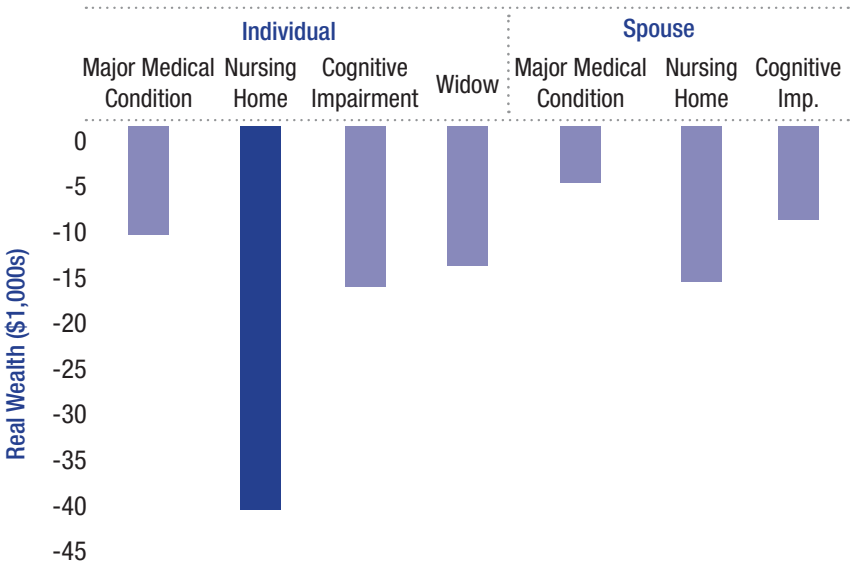


Exhibit 8

Controlling for Demographics and Baseline Conditions, Nursing Home is the Only Shock that Consistently Affects Wealth

Impact of Shocks on Wealth at Last Interview for Women Who Were Married at Baseline



Taxes drive decisions people make about saving and using assets. While concerns about the legal structure were not beyond the scope of the inquiry, examining the legal structure was beyond the scope of the inquiry and this report.

There was one exception to that point. The Treasury Department has made several recent proposals to help facilitate more lifetime income. They were discussed as part of the dialogue.[18]

It is also important to note that many of the ideas discussed in this report will require some modification in legal requirements at a state and/or Federal level. Discussion of those modifications and which legal requirements apply to particular ideas is beyond the scope of this project.

Insights on Key Issues

The discussion at the Roundtable was heavily focused on the middle market, and it was recognized that the middle market has different issues and concerns. For this reason we primarily focused on the needs of the middle market. The experts were asked to identify the issue they were most concerned about. The concerns expressed clustered around challenges to individuals who were not well prepared to meet them in light of their knowledge, the complexity of the decisions needed, the benefits available to them, the risks to be faced, and the planning support generally available.

They weave together to form an interlocking pattern of issues. Through discussion the group focused on the most important issues for further development:

- Quality of advice varies
- Issues surrounding planning are complex
- Shocks—unplanned events—occur regularly
- Messaging/incentives/behavioral economics play a role
- Long-term care costs and access are factors
- Health care costs are a major issue
- Social Security perceptions shape decisions
- Defaults/pay-out periods set expectations
- Payment methods may be outdated
- Demographic differences have an impact
    - Singles vs. couples
    - Men vs. women
- Middle market issues are specific
- Methods for increasing savings (auto IRA) should be reconsidered
- Role of employers needs to be encouraged
- Savings goals/spending patterns have to be in sync

The **SOCIETY OF ACTUARIES** has released a series of 11 Decision Briefs designed to help middle market individuals and those advising them to make better retirement decisions. These briefs focus on issues and provide insight into key questions, options, considerations and trade-offs.

Insights are provided on a number of these issues based on the small group discussions, pre-reading, presentations and group discussion.

UNDERSTANDING AND DEALING WITH COMPLEXITY

When asked what their single greatest concern was with regard to running out of money, the experts cited three areas:

- Complexity of decisions
- Poor preparation for decision making
- Not enough access to the right advice

The experts noted that the process of retirement requires addressing multiple risks and making decisions on complex and overlapping issues. Most people do not have enough money to not only fulfill all of their spending desires, but also to manage risks. Planning horizons are often too short. Retirement decisions require consideration of difficult trade-offs.

Gaps in knowledge and the way people make decisions can lead to poor decisions. Traditional financial planning approaches are heavily focused on managing assets and, thus, work best with clients with significant financial assets. They may not address key needs for people with limited or no assets, even though these individuals have major decisions to make and may not have the resources or the desire to pay advisors. In addition, as people age, cognitive decline and dementia become increasing problems for many, making providing information and education during the period after retirement more difficult. As mentioned earlier, behavioral economics offers insights about how people make decisions and can help to focus consideration of how to communicate and deliver advice.

A focused examination of these issues surrounding complexity covered the following points:

Interacting risks create complexity:
Retirees are faced with a number of complex and interacting risks. Participants were concerned about how to help individuals understand and plan for a broader range of risks. They pointed to the need to think about "integrated" risk management—an approach that looks at risk inside and outside 401(k) and/or the DB planning for personal situations and identifies a range of risk factors. Areas for exploration include products that protect against combined risk, and the potential for development of new products. They also expressed concerns about policies that may be intended to offer consumer protection, but can stand in the way of innovation.

CHALLENGES TO SERVING THE MIDDLE MARKET

In his comments in preparation for the Roundtable, Tomlinson[19] observed:

- It's a huge challenge to provide middle-market planning that adequately recognizes individual needs in a cost-effective manner.
- The delivery of financial services provides many instances of market failure because of asymmetry of information—buyers versus financial salespeople. For example high-commission/high-priced annuity products sell much better than low-priced products. Too often, in the middle market, the delivery of advice ends up being no more than the salesperson pushing his or her favorite product rather than providing a service that recognizes the needs of the individual buyer and offers alternatives.
- Add to that the fact that buyers come to the purchase of financial products with a whole host of cognitive biases that affect choices and decision making. Unfortunately, the financial services industry has not done much to help people overcome these biases and make better decisions.
- There are far more examples of financial service companies exploiting the biases, such as the promotion of active investment management with higher costs and poorer performance than low-cost index funds. Too often, insurers and investment companies end up viewing salespeople as their customer and catering to the needs of the sales force, not the retiree.

Complexity creates challenges:

Complexity arises from the nature of the decisions to be made, the structure of many employee benefit plans, the number of choices offered to employees, and the nature of financial services products. The group identified the following complexities and related issues:

- Default options minimize complexity but they may not be the best choice for everyone. Auto-enrollment gets more people to save, but they often save less on average.
- Investment firms are already managing much of the education and design. Can we simplify things by re-allocating fiduciary responsibility to investment firms?
- Target date funds can simplify the plan by offering an easy "default." However, it is still important to focus on what can be done to simplify the fee structure, the accumulation and the payout.
- Choice is viewed as good, but more choices add complexity. Too many choices are viewed as very confusing.
- D plans in companies that have merged several times can be complex.
- A focus on complexity led the group to ask "what are the trade-offs of trying to teach people vs. being more paternalistic?"
- Is there value in setting up more system architecture to guide people on what to think about?
- Can decision support set them up for success?
- Do defaults make it safer?
- As an idea for the future they suggested that auto-enrollment could be more widespread with public/private partnerships

Joe Tomlinson's submission to the Roundtable summarizes some of the challenges for the middle market:

- Middle-income individuals and couples, those who need help the most, are under-served in a market where being a successful professional means moving to upscale clients.
- It's actually more challenging and complicated to do planning for people of ordinary means than for rich people. ("It's easier to do retirement planning for Bill Gates than for someone with $250,000 in savings.")
- Retirement planning issues for low-income vs. middle vs. rich are completely different.

Upscale clients have less need for products with guarantees - like annuities. After retirement, they can get by with the same types of investments as in the accumulation phase. For low and middle income individuals, it's a completely different ballgame.

The group suggested a focus on how the complexity of retirement offerings can be reduced. Some ideas include:

- Offer fewer choices
- Automate (i.e., use default features to drive plan) as much as possible
- Simplify the tax treatment of retirement savings (this would require legislation)

BEHAVIORAL ECONOMICS AND FINANCIAL LITERACY

Behavioral economics offers new insights into how decisions are made and a methodology to study how alternative patterns of communication and plan structure will interact with decision-making. The group encouraged thinking about this question: What is the best way of getting people to examine their futures—what does behavioral economics tell us?

Consider that:

- People do not make decisions like rational economists.
- How the question is framed matters. It is not obvious what results will be obtained from different framing.
- Education tied to teachable moments is more effective.
- Advice tied to key events is often more effective.

In addition to the challenges of behavioral economics, the group noted that it has been well documented that many individuals have problems with financial literacy. Some do not understand what it means to earn interest and the impact of inflation, and many people do not know how investments work. Budgeting over a long period is beyond the grasp of many individuals. Even when people have the knowledge and skills for this task, not all use them and not all think long term. When behavioral economics is considered together with financial literacy, it is clear that many people are not in a position to make beneficial decisions for themselves.

In addition, people can become more vulnerable to fraud and abuse later in life. If decisions are left until later in life, do dementia and cognitive decline create problems? Do they allow for more fraud and/or abuse?

EXTENT OF PLANNING: CONTRIBUTOR TO SUCCESS?

Planning is viewed as an important ingredient with regard to retirement success. Unanswered questions were asked about the planning process, the context and how effectively planning supported retirement lifestyles. These questions include:

- How many people planned?
- Did they have help?
- What do they know about the planning process?
- What were their expectations?
- Did people who planned follow their plans?
- Were the tools they used helpful for them? Were there any unintentional traps built into the tools?
- Were there problems with the plans that led to failure?
- What is the societal context of the planners and how did it impact their planning?
- Are there real differences between women and men, and if so, what are they?
- What is the dichotomy between retirement planning and life planning?

ADVICE AS PART OF THE PLANNING PROCESS

One of the major concerns raised by the experts was the level of complexity and the lack of preparation on the part of many people for dealing with that complexity. The lack of good advice for many people in the middle market was also raised. On the one hand, there was a concern that people need advice. On the other hand, the issue of conflict of interest was raised. Many advisors who work with the middle market are attached to a single financial services firm, and the question was asked about the pros and cons of a single source advice provider. The group suggested that wider access to reliable advice is an important part of solutions for the middle market.

Related to this issue are concerns about the planning horizon. Society of Actuaries research has found that many people underestimate longevity and have a planning horizon that is too short. Effective advice would help with this issue. In addition, the Society of Actuaries has been conducting other research to help identify effective planning approaches for the middle market.

The experts focused on the challenges created by the limited availability of advice for the middle market. They pointed out that financially there is not a large enough incentive for advisors to serve this market. We need to think of new models for advice/guidance beyond the "traditional one-on-one" where one person gives advice to one client at a time.

Other major points raised in the Roundtable included:

- The quality of advice for those in the middle market is questionable. Studies show that "90% of people are happy with their advisor," but what

is their basis for that evaluation? Our current understanding of how well advisors do is based on reports by the users themselves, and it is unclear how those views reflect their real longer-term accumulation and income results. The group questioned whether self-reported data provides a true picture of the current state.

- Existing guidance models are built into the structure of the programs. Each financial offering and plan design points the user in directions based on the program. This may be a good result for the user, but it also may not. The structural guidance may or may not be appropriate.
- There are various business models for advice. Which model for providing advice is best matched to the needs of the middle market? Which are affordable and feasible for average people? Some of the options include:
  - Single product people
  - People who get paid fees
  - Commission paid advisors and asset managers
  - Fees based on assets under management
  - Hourly paid advisors

FITTING WORK AND RETIREMENT TOGETHER

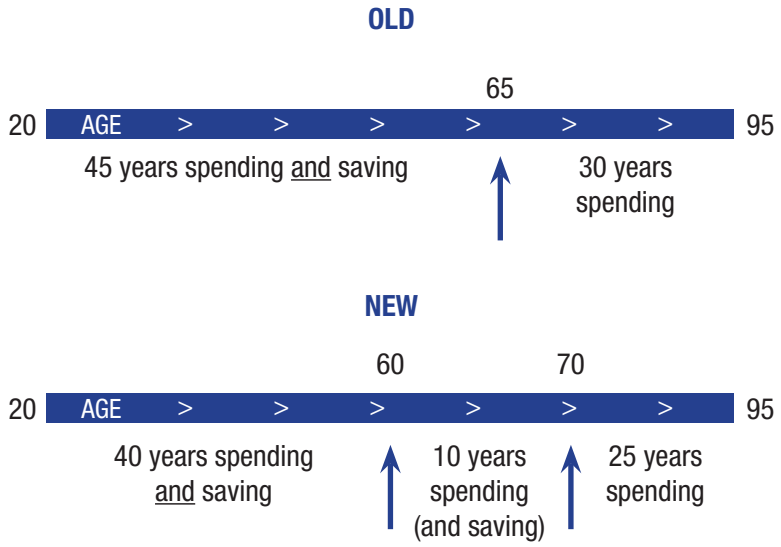
Later retirement is one way to enable retirement with lower resources and to make resources last longer. Claiming benefits later increases Social Security and pension monthly income, but reduces the period over which it is received.

Those focusing on older workers and retirement, however, are concerned about whether working longer is a viable option. The participants raised questions like: What is really happening to older workers? Will they be able to continue working? Will they be rehired—will there be jobs for them and what will those jobs look like?

Retirement can be viewed as a one-time event or a gradual process. Fahlund provided ideas about understanding retirement as a process rather than a destination. She focused on a different division of the life cycle, as shown in Exhibit 9, including a period of "trial retirement."[20]

Exhibit 9

Time Management:
A "New Lifetime Balance" is Needed



During that period the individual continues to work, but with more time off, and with a focus on enjoying the things that he or she would like to do in retirement. Savings is also continued during that period. New patterns of retirement are a possible avenue to solutions.

THE PAYOUT PERIOD: PAYOUT METHODS AND DEFAULTS

Many families enter retirement without enough resources to maintain their pre-retirement lifestyle. Those with resources may have a good plan for making money last and a structured method of producing life income. Others do not have a

structured plan. Of those with a plan, some include lifetime guaranteed income but others do not. Employer sponsored programs are a major source of retirement resources. DB plans for private employers provide for the use of life income as the default option, and often offer a range of options. DC plan benefits are most often paid out as lump sums, which can be rolled over into Individual Retirement Accounts. Some employers take an active role in helping employees, but others are hands off. Retirement decisions require consideration of difficult trade-offs. Gaps in knowledge and the way people make decisions often lead to decisions that may be troublesome. Default options in DC plans have played a major role in helping people get better results before retirement, but not post-retirement. Social Security has only one payment method, so it is totally driven by the default option, and private sector DB plans are required to use life income as the default option.

A focused examination of these issues started with the importance of viewing the payout period as a continuation of retirement planning and recognizing that there are important trade-offs between options. Several major topics were discussed:

- Defaults and inertia: The power of inertia is strong, so appropriate defaults are really important. More attention is needed to determine how defaults can be more effectively used in the DC retirement environment.
- Importance of choice: Choice is valued, but too much choice can paralyze people, keeping them from taking action, so they make no decision at all. Optimal choices should be clear and the pros and cons should be easily understood.
- Partial annuitization could increase uptake in annuities: Annuitization is the method of increasing guaranteed life income beyond what is provided by Social Security. There are a number of questions to be considered in focusing on this issue:
    - How much annuitization can the financial system accommodate?
    - What are the regulatory barriers and can they be removed?
    - How much financial literacy is required to make an informed decision?
    - What portion of an individual's portfolio should be annuitized? What is the impact? How does it impact other investment decisions?
    - Who should give this advice?
    - If an individual annuitizes a portion of his/her portfolio, is he/she adequately protected against shocks?
    - Regulatory requirements: What are the problems/implications of the Required Minimum Distribution? Many people view this requirement as a government recommended default option.
- Delaying Social Security can be an important source of longevity insurance.

SHOCKS LINKED TO HEALTH AND WORK STATUS

Several types of shocks were identified by the experts, including:

- The need for long-term care
- Disability
- Investment risk
- Unemployment

Health-related shocks such as disability and the need for long-term care are a major concern as people consider financial security in old age and the potential to run out of money. In some cases, a shock that leads to disability before retirement

also drives financial difficulty in retirement. Acute health care is insured for those over age 65 or long term disabled through Medicare, whereas many people have no insurance for long-term care, and no financing plan. Medicare does not cover all costs and requires a premium, deductibles and co-payments. Medicaid provides a safety net for those who have extremely low assets and income. Some of the open issues for the future include:

- The need for a better and more comprehensive financing system for long-term care
- The consequences of potential Medicaid cutbacks and gaps in Medicaid coverage
- The possibility of Medicare cutbacks
- The link between disability and retirement resources and how disability should be treated

A focused examination of these issues covered the following points:

- What is insurable, but poorly covered under the present system?
- Several types of shocks related to health and life circumstances are considered, and linked to financial security systems

  Long-Term Care – The analysis focused on both financing and insurance, and on the strains that care-givers experience. Some key questions:

  - Why don't more people buy insurance coverage?
  - Is there a better way to design the long-term care financing system, and the insurance products made available to support financing?
  - What about the risks experienced by caregivers? What are the financial, emotional, and health implications for caring for someone else?
  - When people are saving to provide for long-term care, does this work out?

  Disability – The analysis focused on the interaction between programs and longer term implications of disability

  - What is the relationship between disability insurance and Social Security, especially in an environment where the Social Security age will most likely rise?
  - What is the impact of unemployment on disability claims?
  - How does disability affect longer term security and resources available for retirement?
  - What policy questions should be explored?

  Unemployment – Unemployment is also a shock and it can be correlated with other problems.

  - Is longer-term unemployment insurable at all?
  - What is the correlation between unemployment and a number of other challenges—health problems, disability, divorce, etc.

  Medicaid – The analysis raised concerns with regard to Medicaid.

  - What is the role of Medicaid as a safety net?
  - What does this mean in a time of constrained government resources?

- Is it true that people who are eligible don't participate?

- Do people artificially spend down their assets to become eligible?

It's not that the shock is unexpected, but that it might be much more expensive than anticipated.

PRODUCTS AND BENEFIT STRUCTURES: SUPPORTING OPTIONS

The group focused not only on the wide range of risks, but also on the availability of benefit structures, products and services that support risk management strategies. A focus on products needs to consider both the products and the way they are delivered to potential users. Behavioral economics makes clear that the framing of the delivery and options must be considered as well as their design. The group sees the potential for more development and for these structures to contribute to solutions.

Several areas of benefit and product structure were discussed:

- The decline of DB plans and the stress that this decline creates on individuals who need to figure out how to build and use their resources
- The challenges of protecting against long-term care risk, and the low utilization of long-term care insurance
- The low utilization of life annuities when people have a choice of doing it on their own or purchasing guaranteed lifetime income
- The potential to protect against multiple risks through combination products
- The importance of the delivery structure and framing where there are choices

The group discussed auto-enrollment, recognizing that it is viewed as a big success and has increased the number of people saving in 401(k) plans when used. But it is not a total success. When auto-enrollment is used, more people save, but often they save only the minimum amount. The point was also raised that auto-enrollment may increase credit card debt and overall financial instability when people who are financially in trouble are enrolled. While a great deal of work has been done on defaults during the accumulation period, much remains to be done during the payout period.

The group was concerned about accommodating challenged populations, including the working poor and the mentally challenged. They also focused on the implications of cognitive decline later in life. They recognized that a single system may not be feasible for all. They considered our role as a society and how much we can protect people from themselves. While some experts were heavily focused on the importance of guaranteed lifetime income, others seemed much less paternalistic. Or, as one participant in the session put it, "Contrary to common wisdom, maybe it's not so bad for some people to run out of money." This is a thought provoking statement on which there was no consensus. From a lifetime use of resources point of view, if people wish to fully target using their resources during their lifetimes, some will run out of money.

DEMOGRAPHIC AND FAMILY DIFFERENCES: SITUATIONS VARY

The chances of running out of money vary by population segment. Women live longer, have different life and employment histories, and are more likely to run out of money than men. Single persons have lower resources and are more likely to run out of money than married persons. Minorities, particularly African Americans and Hispanics, have different employment and earnings histories and lower resources in retirement. The background reading for the Roundtable, particularly the Employee Retirement Income Security Act (ERISA) Advisory Council report documents some of these differences.

The analysis indicated that a lot is known about income differences and asset differences across population segments. The demographics used to define segments included marital status, sex, ethnicity, gender, and education. However, concerns were raised about some segments and whether they will have increasing challenges in the future. Particular concerns were raised about both childless women and single mothers.

The analysis indicated other areas where much less is known, including the interaction of financial security with family structure, history, and intergenerational family supports. Intergenerational family supports include a grandmother raising a grandchild, parents underwriting a child's failed business, grandparents helping with college, people helping siblings, etc. Note that the Society of Actuaries recently worked with the MetLife Mature Market Institute on a study linking family structures and retirement risk management. The report is available on the MetLife Mature Market Institute and Society of Actuaries websites.

The family unit itself provides some personal "pooling" of risk. Spouses take care of each other, parents care for children, and children often help with caring for parents in their later years. Where there are second and third marriages, there are additional issues with regard to the role of family members in financial security. People without children have different issues, and single people without children may lack family support. Likewise, single parents have special issues, and they are more likely to be poor. Parents who had children without being married may face special issues. Unmarried couples with children from current or former relationships also have different legal and emotional issues. Concerns were raised about how connected fathers are to children. This area requires further focus and analysis.

Observations

The information supplied by the experts before and during the Roundtable, as well as research by the sponsoring organizations, provides insights about the likelihood of running out of money, the causes and the societal systems that contribute to both problems and solutions. Observations include the following:

- About ¼ of people are likely to run out of money – but the group was not in consensus on whether this is a bad thing.
- Most spending tends to go down at higher ages, but not all spending. Giving generally goes up.
- There are significant gaps in knowledge, planning and actions. Planning horizons are too short. People underestimate how much money they need in retirement.
- The advice industry does not adequately meet middle market needs.
- Behavioral economics offers insights that can help us.
- Shocks are a fact of life. 67% of men and 76% of women age 70+ experience one or more shocks in a nine year period. The shock that has the biggest impact on assets is entering a nursing home.
- Health care costs are an important issue.

In an article in the Journal of Financial Service Professionals, Steve Vernon identifies ten steps to financial security in retirement and provides advice on how to achieve them. [21] Here are his steps:

1. Do a realistic assessment of circumstances and resources.
2. Stay healthy.
3. Protect against catastrophic health risks.
4. Work as long as possible.
5. Make Social Security income as large as possible.
6. Make employer-sponsored pensions as large as possible.
7. Be prudent when withdrawing retirement savings.
8. Adopt simple effective investment strategies.
9. Be thoughtful about tapping home equity.
10. Adjust living expenses to match income.

- The timing of retirement is very important in how long retirement lasts, in the size of Social Security benefits, and in whether someone outlives assets. Monthly Social Security benefits for those claiming benefits at age 70 are about 75% higher than the benefits of those who claim at age 62.
- Housing assets are important, but individuals may not have a clear idea of how decisions about housing affect retirement lifestyle and economic security.
- Challenges have been around for a long time but they are getting more serious because of longer life spans, decline of DB plans and economic instability, and changes in family structure.
- There is a conflict between the shift to individual responsibility and peoples' expectations about entitlements.

Possible Solutions

The research and input from the experts offered no magic bullets, but they did point to a number of potential directions for further research. The group did not determine to what extent failure-to-plan vs. plans-that-do-not-work contribute to future problems. They did suggest that the following key points should be considered as areas of possible solutions:

- Individuals, employers and policymakers all have a role to play.
- Holistic strategies are important.
- Employers can play an important role in providing benefits, acting as a purchasing agent, and providing access to education and advice.
- Employees may need to look at working longer under different options, like scaled down work in a current job or looking for part time work in a different job.
- Working longer is important, as is claiming Social Security later.
- Employers need to continue to offer work flexibility and options for older employees, like those offered by CVS, Home Depot, Walmart and the Federal Government.[22]
- Lifetime income is a very important issue – particularly in light of switch to DC plans that don't require or sometimes even offer a monthly benefit option.
- Resources need to be adequate—which is defined differently for different individuals and depends on both spending needs and cash flow.
- Institutional competitive purchasing can make a difference in the cost of annuitization.
- Employers could take a more active role in encouraging and providing retirement income.
- There are concerns with current products and an interest in the potential for better or more accepted solutions that can be offered to groups—products that can be easily understood and easily compared.
- More work is needed to address issues such as the financing of long-term care, as well as the quality and availability of advice for the middle market.
- We need to balance improving financial literacy and getting people to plan better; that is to find the right balance between education and automation.
- Regulations can hamper or encourage innovation and innovation needs to be encouraged.

Areas for Further Research

The experts and the sponsoring organizations provided insights on the current situation and identified a number of challenges and concerns. However, there remain gaps in the research as well as more work to be done on finding successful solutions. These are some of the areas for further research and development:

- A variety of risks and shocks can cause unplanned for costs and result in running out of money. They can be independent or they can interact. The available analysis did not focus on the interaction between them and the extent to which they are correlated.
- The middle market is currently underserved with respect to retirement advice. More work is needed to understand the most effective methods of delivery of such advice, and what tools would be most helpful and economically feasible.
- The family has had a traditional role as a support and risk pooler, and that role has varied by family and within different cultures. More work is needed to understand how diverse family types provide risk support and what the role of the family may be going forward. More work is also needed to understand what supports are important where families help.
- There are complex and interacting decisions that must be made before, after and during retirement. There is no professional agreement on the "right decisions" that compare to the practice guidelines found in medicine and other areas of professional practice. More work is needed to understand whether more guidance is desirable and/or feasible and to identify best courses of action and how to encourage individuals to consider them.
- Product innovation offers the potential to improve what is available for risk protection, and further work is needed to understand desirable product, benefit and tool innovations. Note that the Society of Actuaries' Retirement 20/20 project focuses on the future of employer provided retirement benefits.
- Defaults have been significantly developed for the accumulation period and law and regulations provide a range of acceptable defaults. More work is needed on defaults for the payout period.
- Risk protection products are mostly single risk, but some offer protection against multiple risks, such as long-term care financing and longevity protection, or long-term care financing and death benefit protection. There is further work to explore the potential for combination products.
- Regulations protect consumers but at the same time they place constraints on the design of employee benefit plans and financial products, and their delivery. Regulations can be a barrier to innovation. Work is needed to understand what current policies hamper innovation, and how they might be designed without sacrificing important consumer protections.
- Further work is needed on how to best serve the disadvantaged and those who are mentally challenged in an era of constrained resources.
- It is unclear whether the people who end up in trouble failed to plan or whether they planned but the plan did not work out.

Post-scripts

NEWLY RELEASED REPORTS

After the Roundtable, several reports were issued which provide important information on the topics discussed. Four items of particular relevance are summarized below:

Retirement Security: Women Still Face Challenges

This report provides an up-to-date review of retirement security in the U.S., and provides data comparing the situation for men and women. The report documents the shift from DB to DC plans. It reports that working women's access to employer-sponsored pensions has improved relative to men's, but also documents that there are still gaps. It provides DC plan access and participation data by race and gender. The report also looks at the composition of household income for Americans over age 65 by gender. Median income for men in 2010 was $44,400 compared to $33,200 for women. These amounts decline by age. For men, median household income was $53,500 at ages 65-69 dropping to $37,000 at age 80. For women, it was $44,100 at ages 65-69 dropping to $25,000 at ages 80 and over. By marital status, it was lowest for separated women, at $21,500. In 2010, Social Security accounted for 50% for men and 54% for women. For men, DB pensions accounted for 22% and DC pensions for 2%. For women the corresponding numbers are 20% and 1%. Major differences in the composition of income by marital status are also documented. Widows are most dependent on Social Security.

The U.S. General Accounting Office (GAO) analyzed data from the Health and Retirement Survey to estimate the effect of life events on household assets and income, separately for men and women. They showed the biggest impact from becoming divorced or separated after age 50, and the next most important impact from being widowed. Women showed bigger declines in assets and income. They showed a 41% decline in household income and assets from being divorced or separated, a 32% decline in household assets from becoming widowed, and a 37% drop in household income from being widowed. Men had important impacts but less than women.

The report also reviews a number of policy options and proposals. They are in the following groups:

- Proposals to expand use of existing tax incentives to save for retirement
- Proposals to expand eligibility and opportunities to accumulate Social Security credits
- Proposals to expand access to retirement savings and strengthen spousal protections
- Proposals to expand opportunities for saving later in life and delay Social Security benefit receipt
- Proposals to ensure lifetime income
- Proposals to ensure income adequacy

This compilation of proposals reflects proposals made by many different groups and individuals. The GAO report states the proposal and makes an estimate of its potential impact on women.

GAO Reports, GAO-12-699, Retirement Security - Women Still Faces Challenges, July 2012.

The Pension Factor 2012: The Role of Defined Benefit Pensions in Reducing Elder Economic Hardships

This report from the National Institute on Retirement Security provides an analysis of persons age 60 or older with DB pension income in 1998, 2003, 2006 and 2010. It finds that the percentage of individuals with their own or a spouse's DB pension based on former employment dropped from 52% in 1998 to 43% in 2010. The mean pension amount increased from $11,657 in 1998 to $14,403 in 2010. The median pension amount increased from $16,157 to $20,493.

The report compares poverty rates among those older Americans with DB pensions and those without DB pensions. Poverty rates in 2010 among those with their own or spouse's pension income are 1.7% compared to 15.5% among those with no DB income. The report also analyzes various forms of deprivation among Americans age 60 and over, and compares the situation between those with DB income and those without DB income. The analysis based on Survey of Income and Program Participation (SIPP) data.

Porell, Frank and Diane Oakley. 2012. "The Pension Factor 2012: The Role of Defined Benefit Pensions in Reducing Elder Economic Hardships." Washington, DC: National Institute on Retirement Security.

Income Replacement Ratios in the Health and Retirement Study

This article describes the income replacement ratio as a measure of retirement income adequacy and identifies several issues analysts must consider when calculating a replacement ratio. It provides insights into replacement ratios and different ways they have been calculated and used.

The author calculates actual replacement ratios for today's retirees, and the article presents the income replacement ratios experienced by participants in the original sample cohort of the Health and Retirement Study (HRS), who were born between 1931 and 1941. Replacement ratios are shown by the respondent's birth cohort, age when first classified as retired in the HRS, and preretirement income quartile. Median replacement ratios fall as the retirement period grows longer. The data presented is a good picture of where today's retirees stand.

Purcell, Patrick. 2012. "Income Replacement Ratios in the Health and Retirement Study." Social Security Bulletin. 72(3): 37-58.

Shifting Income Sources of the Aged

This article discusses the implications of pension trends for the measurement of retirement income. Traditional DB pensions, once a major source of retirement income, are increasingly giving way to tax-qualified DC plans and individual retirement accounts (IRAs). This trend is likely to continue among future retirees who have worked in the private sector. The article concludes that Census Bureau's Current Population Survey (CPS), one of the primary sources of income data, greatly underreports distributions from DC plans and IRAs, posing an increasing problem for measuring retirement income in the future. The CPS and other data sources need to revise their measures of retirement income to account for periodic (irregular) distributions from DC plans and IRAs.

Anguelov, Chris E., Howard M. Iams, and Patrick J. Purcell. 2012. Social Security Bulletin, 72(3).

CONTINUED WORK OF THE SPONSORING ORGANIZATIONS

The Society of Actuaries Committee on Post Retirement Needs and Risks (CPRNR) continues to work on some of the issues raised in the Roundtable, including lifetime income and the middle market. The Decision Briefs series provide good information – there is a need to get that information to those who can benefit from it.

The Urban Institute's Program on Retirement Policy continues to analyze how current government policies, private sector practices, and demographic trends influence older Americans' economic security and decision making. Current projects examine the distributional impact of potential changes to Social Security, alternative ways of boosting private retirement savings, employment challenges and opportunities at older ages, and the financial burden of medical and long-term care costs for future generations of older Americans.

WISER, the Women's Institute for a Secure Retirement, operates the National Education and Resource Center on Women and Retirement Planning, a cooperative project with the U.S. Administration on Aging. WISER provides women with the

crucial skills and information they need to make better decisions and to mitigate the unique financial challenges they are facing including the likelihood of poverty in old-age.

WISER has worked for over a decade on activities to promote a focus on the importance of lifetime income and achieving viable solutions to the income risks women face in retirement. Partners and projects are noted below:

- Educational materials published with the Actuarial Foundation to help people understand the role that annuity insurance products play in making money last for a lifetime and providing help with the complex decision-making needed to assess their needs in retirement.
- An Annuity Education Campaign in partnership with the Americans for Secure Retirement coalition around The Female Factor from 2004-2008.
- Convening a Thought Leadership Roundtable event (2009) with the Metlife Mature Market Institute, American Council of Life Insurers, and Mathew Greenwald & Associates to pursue ways to mitigate the risks women face, and to achieve a viable solution to the income risks women face. The result of the Roundtable was an updated report titled Blueprint for Change, a package of ideas offered to policymakers and others for discussion.
- Partnering with AARP and American Society of Pension Professionals & Actuaries to sponsor the Lifetime Income Summit (2010) to bring together many retirement analysts and researchers, as well as asset managers, insurers, and policymakers. The Summit addressed the challenges in providing lifetime income and the barriers and concerns that employers face in offering lifetime income options within their retirement plans. Key findings released from the Summit can be found at www.lifetimeincomesummit.org and all of WISER's work can be found at www.wiserwomen.org.

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[16] Johnson, Richard W. March 2012. Presentation to the Society of Actuaries Roundtable on Running Out of Money in Retirement. Slides 6-7.

[17] Poterba, James M., Steven F., Venti, and David A. Wise, February 2012. "Were They Prepared for Retirement? Financial Status at Advanced Ages in the HRS and AHEAD Cohorts." Working Paper, National Bureau of Economic Research.

[18] See entries under Policy Changes and Regulations in Appendix B at the end of this report.

[19] Tomlinson, Joe. March 2012. Presentation to the Society of Actuaries Roundtable on Running Out of Money in Retirement. Slides 2-3.

[20] Fahlund, Christine. March 2012. Presentation to the Society of Actuaries Roundtable on Running Out of Money in Retirement. Slide 2.

[21] Vernon, Steve. March 2012. "Retirement Planning for the Middle Class: Holistic Strategies will be Essential." Journal of Financial Service Professionals. 40-47.

[22] http://fcw.com/articles/2012/03/07/government-flexible-retention-brain-drain.aspx

Appendix A: Participants

The following experts participated in the session:

Marc Cohen - Chief Research and Development Officer at LifePlans.

Joel Eskovitz - Counsel at U.S. Senate Special Committee on Aging.

Christine Fahlund - Senior Financial Planner and Vice President of T. Rowe Price Investment Services.

Howard Gleckman - Resident Fellow at the Urban Institute and editor of the Tax Policy Center's blog, TaxVox.

Pamela Herd - Assistant Professor of Public Affairs and Sociology at the University of Wisconsin-Madison.

Karen C. Holden - Associate Director and Professor of Public Affairs at the Robert M. La Follette School of Public Affairs, University of Wisconsin–Madison.

Cindy Hounsell - Founder and President of the Women's Institute for a Secure Retirement.

Kelli Hueler - CEO and founder of Hueler Companies, an independent data and research firm providing reporting and systems designed for the annuity and stable value marketplace.

Michael Hurd - Director, RAND Center for the Study of Aging and Senior Principal Researcher.

Howard M. Iams - Senior Research Advisor in the Office of Research, Evaluation, and Statistics of the Social Security Administration.

Mark Iwry - Senior Advisor to the Secretary of the Treasury and Deputy Assistant Secretary (Tax Policy) for Retirement and Health Policy at the U.S. Treasury Department.

Jeff Janoska - Senior Economist at American Council of Life Insurers (ACLI).

Charles A. Jeszeck - Assistant Director for Education, Workforce and Income Security Issues at the U.S. General Accounting Office.

Richard W. Johnson - Principal Research Associate at the Urban Institute, is an expert on retirement security.

Pamela J. Perun - Lawyer, Gerontologist and Consultant on retirement income policy issues.

Lisa Plotnick - Director of Research at the Insured Retirement Institute (IRI).

Sara E. Rix - Senior policy advisor with the Economics Team of the Public Policy Institute of AARP.

Joe Tomlinson - Actuary and financial planner.

Steve Vernon - Consulting actuary and financial writer.

Jane Lump - Professional facilitator and seasoned communicator with Strategic Innovation.

Appendix B: Assembled Background Reading and Resources

ECONOMIC STATUS AND SITUATION

Preparation for Retirement

The most common metric for assessing the adequacy of economic preparation for retirement is the income replacement ratio, the ratio of income after retirement to income before retirement. Consumption is a better measure of well-being or utility than the level of income at some particular point in time.

This paper assesses economic preparation for retirement in a way that addresses many of the deficiencies of the income replacement rate concept using the consumption plan with an observed starting value per household and following a path whose shape is determined by observing consumption change with age. The data and methods used are explained, and models for singles and couples are included. Finally, results and supporting data are presented. Data for this analysis is taken from nationally supported databases, the Health and Retirement Study (HRS) and the Consumption and Activities Mail Survey (CAMS).

Hurd, Michael D. and Susann Rohwedder, Economic Preparation for Retirement, NBER Working Paper #17203. July 2011.

Boomer Expectations for Retirement. How Attitudes about Retirement Savings and Income Impact Overall Retirement Strategies

The Insured Retirement Institute (IRI) conducted extensive research to identify the expectations Baby Boomers have for their retirement years. Their findings were as follows: 1) the recent recession has made it more difficult for them to pay for essential items, and one-third stopped contributing to retirement accounts; 2) more than one-third of pre-retirees indicated they did not know the age at which they would retire; 3) many Boomers expect to work during retirement; 4) nearly one-quarter of Boomers chose a retirement age that does not make them eligible for full Social Security benefits; 5) over forty percent of Boomers view Social Security as a major income source during retirement; 6) only one-third expect personal savings and investments to play a major role in generating retirement income; and 7) Boomers who own annuities have a higher confidence in retirement expectations. Baby Boomers need guidance and the differences in their preparations must be recognized by advisors when preparing retirement income plans for their clients. Data for this work is based on a telephone survey of 801 Americans conducted in March 2011.

Insured Retirement Institute. April 2011. Boomer Expectations for Retirement. How Attitudes about Retirement Savings and Income Impact Overall Retirement Strategies.

Were They Prepared for Retirement? Financial Status at Advanced Ages in the HRS and AHEAD Cohorts

Many analysts have considered whether households approaching retirement age have accumulated enough assets to be well prepared for retirement. This paper shifts from studying household finances at the start of the retirement period to studying the asset holdings of households in their last years of life. The analysis is based on Health and Retirement Study (HRS) with special attention to Asset and Health Dynamics Among the Oldest Old (AHEAD) cohort that was first surveyed in 1993. The six sections included are 1) Balance sheets and evolution of non-annuity wealth by family status; 2) The evolution of wealth for AHEAD household; 3) The effect of health age and wealth for single person pathway groups; 4) The distribution of assets by asset category linked to health and wealth for single person pathway groups; 5) The other marital pathway groups and all groups combined; and 6) Summary and conclusions, which cites several issues resulting from this study.

Poterba, James M., Venti, Steven F., and Wise, David A. February 2012. Were They Prepared for Retirement? Financial Status at Advanced Ages in the HRS and AHEAD Cohorts. Working Paper #17824, National Bureau of Economic Research.

The Urban Institute (Urban.org), a nonpartisan economic and social policy research group, provides information on many financial retirement issues, including articles addressing the following areas:

1. What causes retirees to run out of money and at what point does this most often happen?
2. Does retiring too early contribute to problems later and do outcomes differ depending on whether or not the retirement is voluntary or involuntary?
3. Has there been any evaluation of different drawdown and annuitization strategies in retrospect?
4. What are the effects of health care and other expenses on depleting assets and what the implications are for the structure of the Medicaid program?
5. How much do retirees rely on assets versus Social Security?
6. Are the expenditure patterns of retirees a critical assessment tool for determining the adequacy of retirement income and the impact of Social Security on older Americans?

This research provides evaluations using simulation models and large databases reflective of the entire population on several issues, including the implications of early retirement and the prevalence of impact of shocks. Analyses are provided of the incidence of poor health, disability and their impact. This research provides measurement of the impact of problems for the population as a whole.

http://www.urban.org

How Can Women's Income Last as Long as They Do? Thought Leaders Discuss Managing Assets in Retirement

This report reflects a specific focus on how women can best manage their retirement income, and what role stakeholders should play. The report on the post-retirement period was released at a time when the Department of Labor began to grapple with the critical issues affecting asset accumulation challenges and the effects of the economic crisis on lifetime income.

How Can Women's Income Last as Long as They Do? WISER, June 2009.

SOLUTIONS WITHIN CURRENT ENVIRONMENT

Do the Downshift: A Win-Win Workforce Strategy

Downshifting, which differs from phased retirement, is about creating an extended period in seasoned workers' lives where the employer benefits from the workers' substantial work and life experience at an acceptable cost and the workers get more work-life balance. For employers, the benefits include the ability to quickly ramp up their work force when the economy rebounds and to access the best source of talent, the talent they already have in their mature employees. Employees benefit from continuing to do meaningful work, having greater control over their schedules, and having the possible option of working from an alternate location. In addition, many employees aged 55 and over don't have the financial resources for a traditional retirement, and downshifting allows them to continue to work after their expected retirement date. A thoughtful, deliberate program on downshifting should be integrated into workforce management carefully, starting with an employer census forecast of its work force, a look at benefits policies and HR procedures impacted, and the identification of potential costs or savings. There are also labor and age discrimination laws and regulations to consider. Developing a successful downshifting program does require time and expertise, but doing so is a win-win for both the employer and the employee.

Hass, Sally and Vernon, Steve. January 2010. Do the Downshift: A Win-Win Workforce Strategy. Benefits and Compensation Digest Vol.47 No.1.

Hueler Companies Written Statement for the Record. "The Retirement Income Challenge: Making Savings Last a Lifetime." Senate Special Committee on Aging

Hueler Companies, an independent consulting firm known for independent research, analytical reporting, and continuing efforts to improve transparency through standardized reporting, suggests that if retirement plans offer access to low cost, transparent annuitization and lifetime income options through an institutional framework, lifetime income payments from these converted retirement savings can provide a reliable level of financial security while reducing risk and enhancing quality of life. Hueler Companies launched the Income Solutions® annuity program in 2004, which offers institutional purchasing of lifetime income options on a competitive platform. Lifetime income options can create significant financial benefits for participants who use some portion of their retirement savings to create a supplemental "paycheck for life" and can help avoid the three primary financial risks in retirement: 1) longevity risk, or outliving one's retirement savings; 2) investment risk, based on market performance; and 3) inflation risk, or the erosion of buying power over time. Plan sponsors are often wary of offering access to lifetime income or annuity products because they fear that this increases their liability or creates the perception that they endorse a particular approach. To address this, the author calls for a safe harbor that reflects the complexity of today's financial environment relative to issuer selection. The author also recommends education as part of the process, noting that technology is essential for creating an efficient delivery framework for lifetime income products on a cost-effective basis.

Hueler, Kelli Hustad. President and CEO, Hueler Companies. "The Retirement Income Challenge: Making Savings Last a Lifetime." Written Statement for the Record. June 16, 2010. Senate Special Committee on Aging. United States Congress.

Health Care Expenses and Retirement Income: How Escalating Costs Impact Retirement Savings

When planning for retirement income needs, it is imperative that Baby Boomers, in particular, consider several key findings, including: 1) future medical expenses are of great concern; 2) Social Security will be insufficient on its own to fund retiree medical expenses; 3) premiums for Medicare Part B are taking a growing bite out of Social Security checks; and 4) using an annuity in conjunction with other investments can be very beneficial in funding future health expenses. In addition, the estimation of future health care expenses has a considerable number of moving parts, including interest rates, inflation, current health, state of residence, and income. The amount needed at retirement to fund future health care costs is in the hundreds of thousands of dollars. Graphs of these findings, as well as projection charts using various scenarios, illustrate the need for a realistic assessment of the funding of health care costs in retirement.

Insured Retirement Institute. January 2012. Health Care Expenses and Retirement Income. How Escalating Costs Impact Retirement Savings.

Ensuring Income Throughout Retirement Requires Difficult Choices

As life expectancy increases, the risk that retirees will outlive their assets is a growing challenge. There is increased responsibility for workers and retirees to make difficult decisions and to manage their pension and other assets so that they have income throughout retirement. The United States Government Accountability Office (GAO) was asked to review 1) strategies that experts recommend retirees employ to ensure income throughout retirement; 2) choices retirees have made for managing their pension and financial assets for generating income; and 3) policy options available to ensure income through retirement and their advantages and disadvantages. Included in the study were nationally representative data, studies about retirees' decisions, case studies of households with varying assets, as well as interviews with experts and the review of documents about related policy options.

Jeszeck, Charles. Director, Education, Workforce, and Income Security Issues. United States Government Accountability Office. June 2011.

Society of Actuaries Decision Brief Series

The Society of Actuaries has issued a series of 11 Decision Briefs designed to help individuals nearing retirement and their advisors identify key issues for decisions and identify the pros and cons of each decision.

The topics for the briefs are:

- Big Question: When Should I Retire?
- When Retirement Comes Too Soon
- Women Take the Wheel: Destination Retirement
- Deciding When to Claim Social Security
- Designing a Monthly Paycheck for Retirement
- Treating Asset Allocation Like a Roadmap
- Securing Health Insurance for the Retirement Journey
- Taking the Long-Term Care Journey
- Where to Live in Retirement
- Estate Planning: Preparing for End of Life
- Finding Trustworthy Financial Advice for Retirement and Avoiding Pitfalls

Society of Actuaries 2012.

Links to T. Rowe Price publications, for Running Out of Money Roundtable Prereading

Links are included on the following subjects, which demonstrate the importance of saving earlier and retiring later:

1. You will not run completely out of money if you are receiving Social Security benefits each month.

   http://www2.troweprice.com/iws/wps/wcm/connect/b0198200430adf718234aee5846c394b/YourRetirementIncomeStrategy.pdf?MOD=AJPERES&CACHEID=b0198200430adf718234aee5846c394b

2. It is wise for a pre-retiree who needs help with planning to rely on a financial planner or at least take advantage of the services provided by their employer retirement plan (if available).

3. Some retirees may find themselves sharing some of their financial assets with their parents or children. In such cases, it would be wise for the retiree to have over-saved for retirement, if possible.

   https://www2.troweprice.com/iws/wps/wcm/connect/da2be50042377b19af57ff7763f57bf8/SandwichGeneration0310.pdf?MOD=AJPERES&CACHEID=da2be50042377b19af57ff7763f57bf8

4. Many pre-retirees do not appreciate the importance of having many years of tax-deferred compounding to achieve a financially secure retirement.

   http://www2.troweprice.com/iws/wps/wcm/connect/46c448004107b8d796a2dfe7296ee75c/SavingForRetirementCollege.pdf?MOD=AJPERES&CACHEID=46c448004107b8d796a2dfe7296ee75c5)

5. For most pre-retirees in their 60s it is important to continue working for longer than planned, while starting to "play" at the same time. This approach is called Practice Retirement.

   http://www2.troweprice.com/iws/wps/wcm/connect/a288670046ea5865940ab7e45b15d4ba/PracRet.pdf?MOD=AJPERES&CACHEID=a288670046ea5865940ab7e45b15d4ba

6. What has T. Rowe Price learned about drawdown strategies?

   http://www2.troweprice.com/iws/wps/wcm/connect/798734004107b909970bdfe7296ee75c/RetirementMarketDevastation.pdf/MOD=AJPERES&CACHEID=798734004107b909970bdfe729ee75c

Notes for Impact of Running Out of Money Roundtable

A financial planner shares his thoughts on the two types of problems facing retirees: 1) arriving at retirement without sufficient savings and resources, or 2) having sufficient resources but not utilizing them in the best way. Included is a discussion for financial advisors of what alternative courses of action would produce a better result and how advisors can encourage people to take better courses of action. The problems facing advisors are discussed, as well as a number of possible alternative steps that may address parts of these problems.

Tomlinson, Joe. 2012. Impact of Running Out of Money Roundtable.

Retirement Planning for the Middle Class: Holistic Strategies Will Be Essential

Financial professionals can play a critical role in helping those in the middle class prepare for retirement by analyzing the realistic limits of traditional financial solutions and discussing holistic strategies that integrate financial and lifestyle solutions. Because traditional retirement will be out of reach for most middle-class Baby Boomers, they will need to change their retirement goals from traditional retirement to a combination of 1) working in retirement to make ends meet, 2) postponing retirement, 3) reducing living expenses before retirement to enable higher savings for retirement, 4) and reducing living expenses during retirement. New retirement goals may be more realistic for the middle class, including the following: 1) a realistic assessment of circumstances and resources; 2) planning ahead to stay healthy and protect against catastrophic health risks; 4) working as long as possible; 5) delaying retirement to make Social Security income and employer-sponsored pensions as large as possible; 6) being prudent when withdrawing retirement savings; 7) adopting simple, effective investment strategies; 8) being thoughtful about tapping home equity; and 9) adjusting living expenses to match income. Analyzing the realistic limits of financial solutions helps identify when nonfinancial solutions are needed.

Vernon, Steve, FSA. March 2009. Retirement Planning for the Middle Class: Holistic Strategies Will Be Essential. Journal of Financial Service Professionals.

POLICY CHANGES AND REGULATIONS

Supporting Retirement for American Families

The Treasury and Labor Departments of the United States have surveyed the public regarding the desirability and availability of lifetime income alternatives in retirement plans. Based on their findings, the Treasury, along with the IRS, is releasing an initial package of proposed regulations and rulings intended to remove impediments and otherwise ease the offering of lifetime income choices that can help retirees manage their savings. In 2009, President Obama announced several new steps to make it easier for American families to save for retirement. These include: 1) making it easier to offer combination options that allow the employee to take a portion of their benefit as regular monthly income payable for life, while taking the remainder in a lump-sum payment; 2) enabling employer plans and IRAs to offer a "longevity annuity" which permits employees to use a limited portion of their account balance to provide lifelong income beginning at age 80 or 85, protecting those who live beyond the average life expectancy; 3) allowing employees receiving lump-sum cash payouts from the employer's 401(k) plan to transfer some or all of that amount to the employer's pension plan in order to receive an annuity

from that plan; and 4) resolving uncertainty as to how the 401(k) plan spousal protection rules apply when employees choose deferred annuities. These proposed plans are discussed in detail, along with administrative guidance for reducing regulatory barriers with a view to promoting greater retirement security for American families.

Executive Office of the President, Council of Economic Advisers. Supporting Retirement for American Families. February 2, 2012.

Application of Survivor Annuity Requirements to Deferred Annuity Contracts Under a Defined Contribution Plan

This document discusses how the qualified joint and survivor annuity ("QJSA") and the qualified preretirement survivor annuity ("QPSA") rules, described in 401(a)(11) and 417 of the Internal Revenue Code, apply when a deferred annuity contract is purchased under a profit-sharing plan. Three different scenarios are presented, as well as the applicable laws and analysis.

Isaacs, Larry and Kuehnle, Roger. Employee Plans, Tax Exempt and Government Entities Divisions. Internal Revenue Service.

Treasury Notes: An America Built to Last: Strengthening Economic Security in Retirement

This document summarizes the CEA retirement report summarized previously.

This announcement aims to facilitate the provision of a better menu of lifetime income products to workers in the private market. Its primary goal is to take a small but crucial step towards a retirement saving landscape that allows retirees to select the type and amount of protection against risk that is right for their circumstances. After reviewing the current retirement landscape, several approaches are presented for shoring up retirement security for Americans, including: 1) encouraging Americans to save more for retirement; 2) ensuring that retirement plan sponsors are provided adequate information to minimize administrative fees and maximize returns; and 3) ensuring that Americans have a better choice of retirement products. Several of the initiatives announced in this document aim to remove barriers that have prevented providers and plans from offering the full array of such options. These proposed actions include: 1) relaxing the application of Required Minimum Distribution (RMD) rules to accommodate longevity annuities in DC plans and IRAs; 2) simplifying regulatory requirements to facilitate partial annuities in DB plans; 3) establishing a road map for self-annuitization from DB plans; and 4) clarifying 401(k) spousal benefit rules for deferred annuities. In addition, the announcement will require certain service providers to provide DB and DC plan fiduciaries with information they need to evaluate service provider compensation. Today's ruling will better support plan sponsors in their mission to provide workers with a retirement plan that will best enable them to accumulate wealth towards retirement.

Krueger, Alan and Sperling, Gene. Posted in Economic Policy, cross-posted from The White House Blog, February 2, 2012. Executive Office of the President, Council of Economic Advisers, Supporting Retirement for American Families.

Modifications to Minimum Present Value Requirements for Partial Annuity Distribution Options under Defined Benefit Pension Plans

This document contains proposed regulations providing guidance on the requirements applicable to certain DB pension plans. These proposed regulations would change the minimum present value requirements for DB plan distributions and permit plans to simplify the treatment of certain optional forms of benefit that are paid partly in the form of an annuity and partly in a more accelerated form. These regulations would affect sponsors, administrators, participants, and beneficiaries of DB pension plans. Explanations of the provisions of the regulations, as well as examples of how the modifications would work, are included.

Miller, Steven T., Deputy Commissioner for Services and Enforcement. Department of the Treasury, Internal Revenue Service.

Longevity Annuity Contracts

This document contains proposed regulations relating to the purchase of longevity annuity contracts under tax-qualified DC plans under section 401(a) of the Internal Revenue Code (Code), section 403(b) plans, individual retirement annuities and accounts (IRAs) under section 408, and eligible governmental section 457 plans. These regulations will provide the public with guidance necessary to comply with the required minimum distribution rules under section 401(a)(9). The regulations will affect individuals for whom a longevity annuity contract is purchased under these plans and IRAs (and their beneficiaries), sponsors and administrators of these plans, trustees and custodians of these IRAs, and insurance companies that issue longevity annuity contracts under these plans and IRAs. An explanation of the provisions, as well as disclosure and annual reporting requirements, is included.

Miller, Steven T., Deputy Commissioner for Services and Enforcement. Department of the Treasury, Internal Revenue Service.

Rollover from Qualified Defined Contribution Plan to Qualified Defined Benefit Plan to Obtain Additional Annuity

This document discusses two questions related to rollover contributions: 1) Does a qualified DB pension plan that accepts a direct rollover of an eligible rollover distribution from a qualified DC plan maintained by the same employer satisfy 411 and 415 of the Internal Revenue Code in a case in which the DB plan provides an annuity resulting from the direct rollover that is determined by converting the amount directly rolled over into an actuarially equivalent immediate annuity using the applicable interest rate and the applicable mortality table under 417(e)? and 2) How does the result vary if the DB plan applies different conversion factors for purposes of calculating the annuity resulting from the amount directly rolled over? Applicable law and analysis is included.

Zimmerman, Carolyn E. Employee Plans, Tax Exempt and Government Entities Division. Internal Revenue Service.

OTHER

Disparities for Women and Minorities in Retirement Savings

The 2010 ERISA Advisory Council (Council) studied disparities for women and minorities as they relate to retirement security and found that disparities do exist. The Council study included focus on:

- Identifying existing disparities for women and minorities in retirement savings and their causes
- Identifying the stakeholders who can influence possible remedies
- The role of the Department of Labor in addressing the issues and in influencing key stakeholders
- Identifying additional educational opportunities for plan sponsors, service providers and individuals that would decrease existing disparities
- Benefit plan designs that positively impact these groups
- Guidance to plan sponsors regarding the collection and utilization of data by race and gender to help identify problem areas

Recommendations were clustered in four areas:

- Increased Education and Department of Labor Outreach
- Guidance for plan sponsor best practices and promotion of regulatory changes for plan designs which will encourage employment-based savings plan coverage and participation

- Addressing family related issues including clarification of rules related to qualified domestic orders to reduce confusion and legal fees as it relates to providing plan information to participants and spouses and the actions necessary to qualify for an order
- Encouraging data collection and the sharing of information

ERISA Advisory Council, Department of Labor 2011