LIVING TO 100 SYMPOSIUM*

Lake Buena Vista, FL
January 7-8, 2008

Session 3B: Quality of Life of Elderly Q&A

Presenters: Deborah Briceland-Betts—Discussant
Anna M. Rappaport
Beverly J. Orth
Eric Stallard

ARNOLD DICKEY: I was interested in the proposals that Beverly was making about different approaches particularly 3 and 4. And I thought if you wouldn't mind, I'll make a couple of comments from someone who has priced a lot of annuities. That's really where I come from. I don't know very much about the rest of these issues here, but in pricing annuities, actually I rather doubt that insurance companies will be very concerned about losing the immediate annuity market. It's a heck of a hard market. First of all, there are very low profit margins and you're talking ½ percent or something like that. There are relatively low expense parts of it. The agents don't make much money from them. The other big problem is you only sell one out of maybe 20 quotes that you do, so you do all this work and get very little for it. So I don't think they'd be too concerned but I think what you find is a problem in trying to use that approach if it's voluntary. Social Security will have the same problem that the insurance industry does, which is anti-selection. And you're going to discover that the rates will probably turn out to be very similar to what the insurance companies can offer. If you have a single rate, unless you can do underwriting, which even insurance companies haven't been able to figure out very well for annuities, you'll discover it's mainly going to be there for the people with the longest life span—the highest life expectancy. So that will be wealthy women and if that's the case, you're not really going to help the lower income women. If very many lower income women do choose to do it, they'll be subsidizing the higher income women. So it's not the greatest solution from that perspective. Now you would get some concern if the transfer of defined contribution was permitted, not only from the insurance industry but from the mutual fund industry and all of Wall Street, which is a lot more powerful than the insurance industry. So I think that would raise some concerns, but again, it would be mainly an upper income issue. It wouldn't really be helping the lower income people, I think. So that's my comment.

BEVERLY ORTH: No I agree. I appreciate your comments. It's encouraging to hear that the insurance industry wouldn't oppose these approaches because that's the kind of feedback I got from other people at my early drafts. So that is encouraging.

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ETHAN KRA: Two comments. One on Anna's presentation on Social Security, very well done. I recently read a paper analyzing Social Security elections especially where there was a husband and a wife and the wife was younger than the husband, and in the common modality, the husband had the higher earnings history. The comment was that the husband should wait until age 69 or 70 to collect. That the present value of the husband's benefit received by the husband would be relatively immune to the age at which the husband elected. However, by delaying the election, the husband significantly would increase the value of the survivor option to the spouse. The spouse should elect to collect at the earlier age based solely on her work history and not as the spouse until she attained the Social Security retirement age, at which time she would elect the spousal benefit. Then when the husband died first, the wife would collect at the husband's delayed retirement PIA. And the comment was, that it was only the cads who elected early and they were finding too many of them. The second comment is the one way of dealing with the poverty of the very elderly. Of course there are more women than men in that age bracket, is to encourage people not to take the lump sums from defined benefit pension plans, and to annuitize out of other plans. Well one of the problems we face is people underestimate their longevity, think they're going to die and think the big bad insurance company or pension plan, is going to keep their money. We have Joint and Survivor Annuities. We have Life Annuities. But very few plans out there offer a 100 percent Joint and Survivor with 20 years certain. The difference in the factor between a 100 percent J&S and a 100 percent J&S with 20 years certain, for a husband and wife both age 65, is about 3 points on the factor. And if the spouse is even younger, it's even less. And so it makes a very minimal difference on the benefit amount. And it gives a psychological crutch to the couple making the election and I think would significantly increase the annuitization. Coming from a perspective of those of my peers who are against additional regulatory mandates, I would be willing to put on the table a request, ultimately to the government regulators and to anybody who talks to them, that we mandate that one of the options offered in every plan is 100 percent Joint & Survivor with 20 years certain. And for the non-marrieds, the Life Annuity with 20 years certain, notwithstanding Internal Revenue Code section 409(a)(9). By doing so, I think we would significantly increase annuitization and alleviate some of the poverty at the oldest ages.

ANNA RAPPAPORT: I'd like to mention that the Actuarial Foundation Consumer Education efforts together with WISER has a booklet on making your money last a lifetime, which deals with annuitization whether it be from a pension plan or from Social Security and that my pitch on the Social Security thing is that everybody needs better information to make an intelligent choice and Ethan pointed out the issues are much more complex for couples.

DOUG ANDREWS: I enjoyed all of the presentations, including the discussant's remarks. Thank you all. With respect to Ethan's last comment, I'm from Canada and pension legislation in Canada requires that you annuitize, but not only that, it requires that if you have a spouse that you take a Joint & 60 percent Survivor Benefit as the minimum benefit, unless both spouses waived that benefit and so that might be something to consider rather than lump sum options. With respect to the papers, I'm afraid that I haven't read the papers. So, perhaps I have missed something. Based on the discussant's

remarks, I think there probably was something in Beverly's paper that is relevant to Anna's paper—that I did want to comment on. It's always dangerous for men to wade into women's issues, but I will try, especially with the panelists that we have here that can certainly comment on these subjects. One of the concerns that I have is that in many of the married couples, the financial decisions have traditionally been made by the men in the family and as life expectancy increases and if men continue to make the decisions, the decisions will be made to spend the couple's money to support the couple, while they're both living. Given that the resources they're beginning with probably are inadequate to support both parties for as long as either of them would live, there's a particular danger when life expectancy increases that when you get to the remaining spouse, which is typically the woman, that there will be even less adequate funds than there would have been before life expectancy increase. So I think that's another one of the half empty aspects of life expectancy when we're dealing with women's issues. The second thing that I would like to engage Anna in debate on since this is an actuarial conference, has to do with the decision about whether to take early or late Social Security retirement benefits. Because I'm talking at an actuarial conference, my comment is actuarial. If I were talking at a retirement planning seminar, I would certainly be prefacing my remarks by the first decision that you have to make is do you have adequate funds to retire? That's your first decision before you consider retirement. However, if you've made the decision that you do have adequate funds to retire, and you're then considering whether or not to take your Social Security benefit at an early date or not, you need to look at the value of that benefit. Many of the social security systems around the world have less than actuarial reductions for early retirement. In fact, they're subsidized reductions. So it is an income enhancing or wealth enhancing decision to take early retirement. Even if there are actuarial reductions, and I think this is important for actuaries to recognize, those actuarial reductions are calculated at market rates of interest. But in fact, the people who are receiving the benefits may have personal discount rates that are quite a bit different than the actuarial rates, and consequently, early retirement may be a good decision for them in their circumstances. That's a comment from an actuary's point of view.

ANNA RAPPAPORT: I want to respond a little bit that those are good points that Doug made. To complicate the situation, if you have money in an individual retirement account, for example, the issue of should I take that money out now and defer Social Security, should I use more of that money earlier and defer Social Security, there are folks from the Prudential that have done an excellent paper on that. This issue is further complicated by the fact that the price that you effectively buy annuities at, if you defer your Social Security is different than the price if you're buying them in the market. Social Security in the United States is partially taxed and it depends on what other income you have and you may be changing taxation. So there's some extra issues here. I commend the papers from Fidelity and Prudential on this topic. We really need better tools for it and it's not a simple subject. I mean when you get through the whole thing, it's not easy, but this sort of common advice of take the money early is very scary.

STEVE VERNON: I've come up here for another topic but I had to address this last one. I'm also an actuary at this conference and I'll say when the choice of early vs. late Social Security elections, there's one actuarial analysis which is indeed something to pay

attention to, but you also have to pay attention to the behavioral analysis. And if someone retires early, while they still could work, but don't work and then they have a lower Social Security benefit, they're disadvantaging themselves. If they had just kept working, and then had a higher benefit, particularly if that's the only thing that they will get, like a woman, if that's the only benefit they'll get, they should make that as big as possible. And so I've added there are behavioral aspects to this that need to be added to the actuarial analysis. But that's not why I came up here. If I said that there is a solution to our chronic healthcare cost that can reduce our healthcare costs by anywhere from 20-50 percent, people would think I'm a genius. But I'm not. Take a brisk walk four times a week, go to a plant based diet instead of a meat-based diet, and we would significantly reduce our healthcare costs. So I propose that as one solution to add to. I'm agreeing with everything that's been said here. I haven't heard a big emphasis on education. I think we need to really ramp up the education and marketing efforts on healthy lifestyles. Evidence on behavior research shows that you need to hear the message, not once, not twice, about five or six or seven or eight or nine or ten times before it finally sinks in. And so I think a really ramped up public education effort would be valuable. Last comment on annuities. When we heard that insurance companies don't make a lot of money, brokers don't make a lot of money on immediate annuitities, that says to me from a consumers point of view, it's a good deal. And I commend Beverly on the choices or the options on risk pooling. But if you want to do something right now, without any future changes in the market or policy, and if you're lucky enough to have a portfolio, which I acknowledge is a big if, taking a third to a half of your money and buying an immediate annuity under today's market is a pretty good deal. Taking the rest and living off the interest or a modest draw out on the principle—that works. And so again, I think a stepped up educational effort could help people be aware of solutions that we can do right now and not have to wait for innovations, which we should try and do, of course. But we don't need to wait for policy improvements or innovations to make this work right now. Thank you.

BEVERLY ORTH: Even with education, I think it would be hard to educate enough of the public that annuities are valuable because they don't understand what the risk is. I think that's the problem. That's why I favor mandatory annuitization but that wasn't my topic today.

TIA SAWHNEY: I would allege that perhaps people understand the risk a little bit more than we think they do. I'm not an annuity expert. What I know something about is health insurance and in the individual health insurance market, we know for sure that community rating has some bad unintended consequences in that it drives the healthy people out of the market. And I would argue that what's happening is in the annuity market, the impaired people are being driven out of the market. If I'm a 65 year old retiree woman, and I'm a cancer survivor and I have the early stages of COPD, there's still a chance I could live for 30 years. And I should be protected against living for 30 years, but I am not the risk that's being priced into the annuity contracts. And that should be reflected in the price I pay.

JAY SIEGEL: The principal problem that women have is the premature death of men, and their lack of pensions supplementing Social Security. So the main solution, the main thing in your litany, your list, to aid women is to have an affirmative action program for the premature death of men. I could also add ways of getting rid of older women (laughter) and send them to outer space or other programs like that. But that is the crucial issue. The effort has to be focused on preferential treatment to prevent the premature death of men.