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INTERVIEW WITH
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TELL US A LITTLE ABOUT YOURSELF.

I am a senior economist with the TIAA Institute and previously held research positions with the Employee Benefit Research Institute and the American Council of Life Insurers. Adding it up, I've been working on retirement income security issues for 25 years—time flies. A particular interest of mine and the Institute is understanding how individuals manage their retirement savings once they move into retirement.

Outside work, well, I took ice skating lessons with my wife last year. I can't say that I'm good, but I am functional and now really appreciate clean ice.

WHAT ATTRACTED YOU TO THE ESSAY CONTEST?

We had recently completed a survey research project that delved into the decision-making of retirees who had annuitized retirement savings and those who had not. Finding that they shared the same financial priorities was striking and surprising. The essay contest offered a fantastic opportunity to share that work with a broad network of professionals interested in retirement income issues. It was truly gratifying to have the essay accepted.

WHAT STEPS, IF ANY, WOULD HELP MAKE THE IDEAS IN YOUR ESSAY A REALITY?

The challenge is helping individuals to identify and focus on their financial priorities as they approach retirement and then to develop an asset management strategy aligned with those priorities. This is a realm where behavioral economics could be fruitfully applied, analogous to what had been done on the accumulation stage.

WHAT GROUPS WOULD NEED TO BE INVOLVED?

The research community, plan sponsors and providers, and likely policymakers.

WHAT ELSE WOULD YOU LIKE TO TELL US?

It's preaching to the choir, but these essays reflect a growing body of work in an important area—the decisions individuals make once they retire. These decisions are just as important, but even harder than the savings-related decisions made while still working. There's not a lot of wiggle room to "fix" a poor decision made at this stage. ■

Decisions Misaligned With Priorities: The Non-Annuitization of Retirement Savings

By Paul J. Yakoboski

Providing a financially secure retirement is a primary objective for any employment-based retirement plan. For workers covered only by a defined contribution (DC) arrangement, this starts with accumulating sufficient wealth to fund retirement, but that is not enough. A retiree must then manage and decumulate that savings so it provides an adequate and secure income throughout retirement. The primary challenges in doing so are well understood. Retirees don't know what their investment returns will be over the course of their retirement. Nor do they know how long they or their spouse, if they are married, will live. If they decumulate assets "too quickly," retirees risk not having adequate retirement income in later life. If they do so "too conservatively," they can experience an unnecessarily lower standard of living. So adequate savings must be translated into income in a manner that efficiently manages investment and longevity risks.

Asset decumulation is not only a personal finance issue for individuals; it has significant public policy implications too, as growing numbers of workers accumulate retirement benefits solely in DC plans. To this end, the economic rationale for annuitization of (at least some) retirement savings has long been understood. However, annuitization rates historically have been low—very, very low—a phenomenon that is not well understood despite ample research. If retirees are making "rational" decisions based on full information, then low annuitization rates are not a concern. But given what we know about decision-making during the accumulation stage (regarding participation, contribution rates and investment allocation), rational behavior is probably not the norm for many retirees during decumulation.

FINANCIAL PRIORITIES AND NONPRIORITIES AMONG RETIREES

Understanding the decisions that retirees make is a precursor both to identifying whether there is an issue concerning annuitization and to guiding individuals in the right direction given their circumstances. If retirees' choices are consistent with the pursuit of their financial priorities for retirement, then there is no reason for concern at either a micro and macro level (unless one wanted to argue that some retirees' priorities are flawed and need to be "fixed.") In this case, those who annuitize and those who do not must simply have different financial priorities for retirement.

Alternatively, if the strategies chosen do not align with retirees' financial priorities, then there is an issue to be addressed. This, in fact, appears to be the case with many retirees who choose to not annuitize, according to research by the TIAA Institute.[1] We surveyed 500 retirees who had annuitized at least some of their retirement savings and 500 retirees who had not annuitized any retirement savings. The survey was restricted to those who had retired with at least $400,000 in DC and/or IRA assets and who had no defined benefit (DB) pension income. In this case, retirement savings and Social Security likely represent the primary sources of retirement income, so management of that savings would be particularly important for retirement income security.

Survey respondents were asked to rate the priority they place on 10 items using a five-point scale ranging from "very high priority" to "not a priority." We found that annuitants and non-annuitants typically share the same top financial priorities for retirement. In fact, they generally share the same top, middle and low priorities. Furthermore, annuitization is consistent with meeting the top priorities.

More specifically, the top financial priorities for retirement among annuitants were protecting spouse's financial security from your death, not outliving savings and assets, and covering basic expenses with a guaranteed income stream. Each was deemed a "very high priority" by over one-half of those who have annuitized and as a "high priority" by more than one-third. The first two priorities also were the most important to non-annuitants, with analogous percentages rating each as "very high" and "high." Having guaranteed income sufficient to cover basic expenses ranked third among non-annuitants, but only one-third rated it a very high priority and another one-third as a high priority. Given these attitudes, there appears to be a disconnect between the top financial priorities of non-annuitants and their decision to not annuitize any retirement savings. Since they have not annuitized, their savings must be drawn conservatively to meet their financial objectives. (See Table 1.)

Not only do annuitants and non-annuitants tend to share the same top financial priorities, they generally agree on the lowest and mid-level priorities. The findings at the low end of the priority spectrum are striking: Items that rate lowest as financial priorities—having the flexibility to adjust your income as need-

Table 1 Top Priorities for Managing Personal Finances During Retirement

How Much of a Priority is [This Issue] When it Comes to Managing Your Personal Finances During Retirement?				
	Very High	High	Moderate	Low/Not
Ensuring the financial security of your spouse if you die first				
Annuitants	57%	36%	5%	3%
Non-annuitants	51%	36%	8%	5%
Not outliving savings and financial assets				
Annuitants	54%	35%	7%	4%
Non-annuitants	49%	37%	10%	4%
Having a guaranteed income stream sufficient to cover basic expenses				
Annuitants	53%	38%	6%	3%
Non-annuitants	36%	35%	18%	10%

Source: Yakoboski, "How Retirees Manage Retirement Savings for Retirement Income."

ed over time, earning a high rate of return on your financial assets, leaving an inheritance and having professionals manage your financial assets—are all consistent with not annuitizing retirement savings. But given that they are low priorities, they should not drive the decision to not annuitize. (See Table 2.)

EXPLAINING THE NON-ANNUITANT DISCONNECT

So, why do some retirees with significant DC/IRA accumulations, but no pension income, choose to not annuitize when all tend to share the same financial priorities and the top priorities are consistent with annuitization? Why the disconnect between priorities and decisions among non-annuitants?

When asked specifically about their reasons for annuitizing some retirement savings, the items annuitants rated highest in importance—cannot outlive the income stream and providing income for spouse if annuitant dies first—aligned with the top financial priorities previously noted. One-half rated each of these reasons as extremely important and an additional one-third rated each as very important.

In contrast, a strong, driving reason did not emerge when non-annuitants were asked about their decision to not annuitize any retirement savings; no item rated "extremely important" among a large share of these retirees. The most significant reason—maintaining direct control of the money—was rated as extremely important by only one-quarter of non-annuitants and very important by an additional 40 percent. Furthermore, this top reason does not align with any of their top financial priorities. Rather than a driving reason (or reasons) leading individuals to not annuitize, it appears more likely that non-annuitants simply do not perceive a driving reason to annuitize.

It's possible that non-annuitants do not understand that annuitization would address their top financial priorities. If so, why not and would a better understanding lead to decisions that are more aligned with priorities?

The survey responses suggest that advice impacts decumulation decision-making and that advice can cut both ways. Almost equal percentages of annuitants and non-annuitants (54 percent and 58 percent, respectively) worked with a financial adviser in deciding how to manage and draw income from retirement savings. Moreover, both groups tended to be equally likely to follow the advice they received. But the advice received was generally quite different between the two groups: Annuitants were more likely advised to annuitize than were non-annuitants, and very few annuitants were advised to not annuitize. Specifically, 60 percent of annuitants were advised to annuitize, versus 21 percent of non-annuitants. (See Table 3.) Thirty-seven percent of

Table 2 Low Priorities for Managing Personal Finances During Retirement

How Much of a Priority is [This Issue] When it Comes to Managing Your Personal Finances During Retirement?	Very High	High	Moderate	Low/Not
Having the flexibility to adjust your income as needed over time				
Annuitants	15%	49%	27%	10%
Non-annuitants	25%	45%	26%	4%
Earning a high rate of return on your financial assets				
Annuitants	9%	30%	49%	12%
Non-annuitants	11%	31%	48%	10%
Leaving an inheritance				
Annuitants	6%	26%	35%	34%
Non-annuitants	12%	27%	32%	28%
Having professionals manage your financial assets				
Annuitants	12%	20%	24%	43%
Non-annuitants	10%	20%	24%	46%

Source: Yakoboski, "How Retirees Manage Retirement Savings for Retirement Income."

non-annuitants were advised to not annuitize, and 42 percent received no advice regarding annuitization. It can be argued that receiving no advice about annuitization is equivalent to being advised to not annuitize.

Table 3 Advice Received About Annuitizing Retirement Savings

	Do	Don't	Not addressed
Annuitants	60%	9%	30%
Non-annuitants	21%	37%	42%

Source: Yakoboski, "How Retirees Manage Retirement Savings for Retirement Income."

In addition, the investment decisions that workers make while saving for retirement during their working life have implications for how they manage savings for income during retirement. By extension, this implies that investment menu design during the accumulation stage matters for decumulation-stage decisions. More specifically, previous research found that retirees who annuitized were more than twice as likely, compared with retirees who had not annuitized, to have saved through a deferred annuity in a DC plan while working.[2] One-quarter of retirees who have not annuitized their retirement savings participated in a DC plan that offered an annuity investment option in the accumulation phase, and 25 percent of these retirees saved through the annuity. In comparison, retirees who have annuitized were slightly more likely to have participated in a DC plan that offered an annuity investment option, and 45 percent of them saved through the annuity. Additionally, 41 percent of retirees who annuitized participated in a DC plan that offered annuitization as a retirement payout option. It appears that in-plan deferred annuities present an opportunity for participants to become socialized to annuities and annuitization, thus increasing their propensity to annuitize.

CONCLUSION

Retirees with significant DC and/or IRA accumulations and no DB pension income tend to share the same top financial priorities for their personal finances in retirement, irrespective of whether or not they have annuitized any of their retirement savings. Furthermore, each of these top priorities is consistent with annuitization, and the primary reasons cited by annuitants for annuitizing align with these priorities. So why then do others who share the same financial priorities choose instead to not annuitize?

It is possible that non-annuitants simply do not understand that annuitization would address their financial priorities for retirement. If they are not advised to annuitize or if they are not socialized to annuities and annuitization while still working and saving, then they may not see the connection between their priorities and annuitization. In fact, one-quarter of non-annuitants rate their understanding of annuities and annuitization as merely fair or poor. Most non-annuitants do not have a good idea about the income level that annuitizing their savings would provide; among those professing to have a pretty good idea or somewhat of an idea, only one-third give a reasonable answer regarding what $100,000 would yield if annuitized.

Correcting this disconnect can help ensure that an adequate level of retirement savings translates into an adequate and secure retirement income—one that lasts a lifetime and meets retirees' top financial priorities. ■

ENDNOTE

1 See Paul J. Yakoboski, "How Retirees Manage Retirement Savings for Retirement Income: A Survey of TIAA-CREF Participants," TIAA-CREF Institute Data Summary (October 2015).

2 See Paul J. Yakoboski, "Retirees, Annuitization and Defined Contribution Plans," TIAA-CREF Institute Trends and Issues (April 2010). The analysis was based on a survey of individuals who had been retired at least three years, were not working for income during retirement, had $200,000 or more in DC and IRA assets at the time of retirement, and had less than $200 per month in defined benefit pension income. The survey population was not drawn from TIAA participants.

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