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Book Review

MONEY FOR LIFE, TURN YOUR IRA AND 401(K) INTO A LIFETIME RETIREMENT PAYCHECK

BY ANNA M. RAPPAPORT

MONEY FOR LIFE *Turn Your IRA and 401(k) Into a Lifetime Retirement Check* by Steve Vernon, FSA, is a great book and I encourage actuaries to read it, and use it with their clients and friends. It will be most interesting for actuaries who work with retirement solutions, and are seeking good ways to explain these solutions to

individuals, insurance company customers, clients' employees, software developers, etc. In many respects the products offered to provide post-retirement solutions come from an industry that seems to be in silos—and within each silo are specialists working on different solutions that include a variety of special features and provisions,

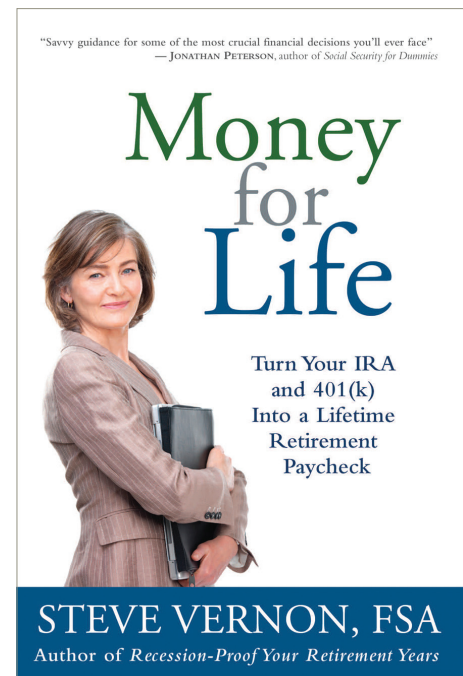
A personal perspective on the work of Steve Vernon

Steve Vernon and I both spent much of our careers in major consulting firms, where our primary client base was larger employers. Both of us have moved on to focus on helping people make better retirement decisions for themselves, although in somewhat different ways. I chair the Society of Actuaries Committee on Post-Retirement Needs and Risks and will say more about that below. Steve Vernon has used his actuarial training plus outstanding communication skills to become an author and educator. His firm, Rest of Life Communications, offers materials and education about retirement topics. And he is also a regular author of a column for *CBS MoneyWatch*, enabling

him to bring important retirement-related concepts to the public on a regular basis.

I asked Steve to tell me about his work, and this is what he said: "My mission at this stage of my career is to use my actuarial skills and experience to help people make informed choices for planning their retirement. *Money for Life* presents unbiased guidance on one of the most important financial decisions that boomers will be making in the years to come."

I think his work provides a great example of what members of our profession can do so that we bring our work to a large audience.



using different terminology, etc. The book should also be interesting to those product development and marketing specialists in that it provides a view of the total picture from the potential customers' point of view. Some employers may wish to give the book to employees as a way to provide education about the post-retirement period. Actuaries planning for their own future will value the practical suggestions and market information provided.



Anna M. Rappaport

As an actuary, I have been very concerned for a long time that many people do not understand the importance of regular lifetime income, the risk of running out of money, and the options for creating lifetime income. Actuaries generally understand the basic issues, and while some understand the options, many may not. Different options are provided by different types of financial institutions and service providers. Few actuaries practice in areas that extend across the silos responsible for the different solution types. Each of these product groups is usually described with jargon, making it confusing for those who are not expert in the specific area to understand the nuances and options. Steve Vernon has done a wonderful job of explaining the options in plain language and mostly stripping away the jargon. However, he also provides additional chapters in the second part of the book to explain the technical issues and many of the variations in some of the product groups. Chapter 16, “A Closer Look at Guaranteed Lifetime Withdrawal Benefits” is an example of such a chapter. It makes me proud to see a fellow actuary communicate so well about these issues.

For many people, the issues of deciding how to provide retirement income are confusing and they do not know where to start. In Chapter 1, “The Money for Life Five-Step System,” Vernon offers a workable approach to setting up a strategy.

In Chapters 2 through 5, he lays out three “RIGs” or retirement income generation methods, and explains how each works, again in simple language for the consumer. The three RIGs are Investment Income, Systematic Withdrawals and Immediate Annuities.

The decision about which retirement income strategy to choose involves trade-offs, long-term issues, and working with a range of solutions that are not easy for the average person to understand or implement. The book sets up key characteristics to use in defining the trade-offs, and uses a simple graphical approach to show how the approaches compare (see chart below). For many people the best solution is not a single choice, but a strategy that combines different types of solutions. Chapters 6 through 8 help the reader focus on combining solutions to build a “portfolio.” Chapter 6, “Hybrid Solution,” explains the ideas in combining solutions. Chapter 7, “My Five Favorite Retirement Paycheck Solutions,” gives case study examples of combinations, and helps the reader think about possible combinations. Chapter 8,

“How to Decide Which Solution Works for You,” helps the reader put all of these ideas together.

Implementation choices for the solutions involve big differences in costs, and some of those who provide advice and support have a financial interest in favoring specific solutions. The book provides a practical discussion of implementation for each option and brings in issues related to how to buy products efficiently and how to implement solutions. He also includes information about different types of financial professionals who can offer advice and questions to ask, as a professional is chosen. The information

THE FIVE-STEP SYSTEM
STEP 1: Estimate your life expectancy
STEP 2: Take inventory of your retirement resources
STEP 3: Figure out how much money you will really need
STEP 4: Decide which method(s) you’ll use to generate a retirement paycheck
STEP 5: Estimate your retirement number

MONEY FOR LIFE™ RETIREMENT INCOME RATING SYSTEM				
GOAL	IMMEDIATE FIXED ANNUITY	GLWB/GMWB	SYSTEMATIC WITHDRAWALS 4%	IMMEDIATE INFLATION-ADJUSTED ANNUITY
Amount of initial income	●	◐	◐	○
Longevity protection	●	●	○	●
Inflation protection	○	◐	◐	●
Flexibility and Financial legacy	○	◐	◐	○
Exposure is minimized	●	●	○	●

KEY: ● = high or strong ◐ = medium or maybe ○ = low or none

Excellent Example

An example of Vernon's easy-to-understand ideas: "Before we dig into the particulars of how to generate a lifetime retirement paycheck, however, it's important that you do some homework first. Consider that when painters do their job properly, they spend time sanding and prepping before getting out the paint, rollers and brushes. In the same vein, you'll need to do some prep work to get ready for the crucial task of choosing the best methods of generating retirement income, income that will last as long as you live no matter what happens in the economy."

included focuses on some specialized professional qualifications and education as well as different business models used by professionals. Examples are provided to make the points clearer. Issues such as load and no-load mutual funds are discussed. Examples are given

of organizations that provide various services or types of products. This is not a buyer's guide, or comprehensive review of the market, but enough information is provided to help the reader find sources for solutions if they wish to.

A postscript


The Committee on Post-Retirement Needs and Risks recognized the importance of decision making around retirement as a topic of vital importance several years ago. The committee has completed 11 issue briefs on different topics including one on the topic of this book. All are available on the SOA website. The issue brief is a very good introduction to this subject and helps define the question and issues. Vernon's book goes much further and provides a guide to making it happen.

If you are interested in this topic and book, you may also be interested in the research sponsored by the committee, available at <http://www.soa.org/research/research-projects/pension/research-post-retirement-needs-and-risks.aspx>.

Many times discussions about retirement planning start out with a discussion of how to get the best tax treatment and seem very tax driven. Such discussions can easily lose a focus on retirement fundamentals. Steve Vernon has a very different approach. He starts with the basics and then in Chapter 12, "Taxes Matters," shows us how taxes weave together with the big picture he has painted. I strongly agree with this approach of basics first.

In summary, there are a lot of things I like about this book. A complex set of technical issues has been translated into easy-to-understand language. They have been separated into a set of ideas that are actionable for the average person. I love the fact that the jargon has been stripped away and that there are analogies that help real people to relate to the issues in the discussion. At the same time, the technical issues are presented in part 2 for those who want to study them. I

also like the presentation of trade-offs, examples and the graphics. I believe that the practical advice on implementation, provided from a neutral point of view, is a significant differentiator for this work. Vernon has done a wonderful job of explaining the options, providing information on implementation, and providing cautions about more expensive options.

Money for Life is available on *Amazon.com*. 

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