Informal Discussion Transcript
Concurrent Session 5B: What Is Different Today for Post-retirement Financial Planning?

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JEAN-MARC FIX: Welcome, everyone, to this session on what is different today for post-retirement financial planning. As you noticed, this last day has a slightly different format. We don't really have a panel; we have one speaker, so we can go a little bit more in depth on certain topics. The topic for this session is financial planning. Tamara Burden, who will be our speaker today, has prior experience that includes several years of product development and pricing work for an international reinsurer, where I got to work with her and know her. From 2004 until 2016, she worked at Milliman, where she led a number of high-profile variable-annuity product development and hedging initiatives in Europe. She's an FSA. She's also a CFA charter holder and was nominated for the professional risk manager of the year award from the Professional Risk Managers' International Association, one of 17 nominees worldwide. She's a board member of RIIA, the Retirement Income Industry Association, and she recently decided for a career change and is now working for the nonprofit association Zac's Ridge. Help me in welcoming Tamara to the podium. [*Applause*]

TAMARA BURDEN: Thank you very much. I am excited to talk to you today about this. This is something that I'm really interested in and excited about, this topic of post-retirement financial planning. [In] my role at RIIA, the Retirement Income Industry Association, I'm one of the members of the board, and that shaped a lot of my ideas around financial planning. It's a great organization, if you haven't heard of it—definitely worth checking out.

There are a lot of different ways I could take this particular topic, and I'm going to touch on a few of them, but the meat of the topic is about how the world around us is changing in a very fundamental way that affects the way that we access skills and resources of others, and the way we share our own skills and resources. That's the heart of the topic, but I'm going to lay some groundwork first.

Traditional financial planning essentially involves a calculation with a few different puzzle pieces: life expectancy, savings rate, age at retirement, interest rates, expected return on assets, cost of living, health care costs. The problem with this right now, as you probably know, is that the math doesn't work. Where we are today is not where our parents were; it's not where our grandparents were. So let's take a few of these and look at them.

Like, for example, the personal savings rate: This is from the U.S. FRED [Federal Reserve Economic Data] database. [The] personal savings rate has gone down from 10 percent to 5 percent. The last time it was around 10 percent was in the mid-'80s, and it went down steadily in the '90s, spiked up a little bit right after the financial crisis, but it's back down to around 5 percent now. And remember, in the '80s, interest rates were really good, right? So that was actually a really good time to save. Now, arguably with interest rates below 2 percent—the 10-year rate below 2 percent—arguably we should be saving a lot more, rather than half what we used to be saving.

Health care costs: The last time that health care costs kept pace with inflation was, again, in the mid-1980s. This graph is scaled to a value of 100 in 1982, which is right about where the red and blue lines cross. So then we can see that from 1982 to today, inflation has gone up from 100 to a little over 200, but health care costs have gone from 100 to over 400—a huge increase in inflation of health care costs. Then if we just look at health care expenditures as a percent of GDP, that's also a pretty frightening number. In the '60s, it was about 5 percent of GDP. In 2008, it was 16 percent of GDP, and it's expected to continue to go up.

The last couple of things have to do with life expectancy and age at retirement. U.S. life expectancy has gone up, and I'm sure there've been many other conversations on this topic at this conference, but this is just a graph I found. From 1970 to 2010, life expectancy has gone up by eight years. However, our age of retirement really hasn't increased. This graph is actually a Gallup poll, and it asked two things. It said, "What age do you expect to retire?" So that's the dark-green line, which is four to five years above the actual retirement age, which is the light-green line. And then, in addition, you can see that between 2002 and 2012, the actual retirement age didn't change: 59, 60 for pretty much everybody. It's gone up just a little bit in the last couple years. It certainly hasn't increased the eight years that our life expectancy has, so when I say the math doesn't work, it really doesn't work.

Another aspect of what's different about financial planning is that there are actually a lot more moving pieces. Financial advisers are becoming educated on a wide variety of topics, and they are integrating more of these things into their financial planning, and these things actually have the possibility to make a very big difference in the outcome for retirees.

Instead of just that mathematical calculation of how much you're going to save and how much you're going to withdraw, [you can be] looking at things like dynamic withdrawal strategies, tax-optimizing your accounts, and the order in which you draw from those accounts in order to minimize the tax burden that you have. Medicare means-testing is a really big one, and I've got some good slides at the end about that, but what that refers to is the fact that Medicare Part B and Part D premiums are based on your modified adjusted gross income, and so if your modified adjusted gross income is high, then the premiums you're going to pay for Medicare Part B and D are high, and that could make a very big difference in how much you end up paying for health insurance. That's something that a lot of first-look calculations by financial planners don't actually look at, don't even consider, and it can be a very big expense.

The other thing is Social Security claiming strategies. There are lots of different ways to take Social Security income. The government recently kindly changed the rules, so it's not nearly as nice as it used to be. You used to be able to file and suspend, and they've limited what you can do with that, [although] that was a good way to increase Social Security income. That's an important piece of the calculation, because it can make the difference between having a healthy retirement account and having a retirement account which is kind of a bare minimum.

The other thing that you could have an entire conference on, much less one session, is the new DOL fiduciary rule. The Department of Labor came out recently with a new rule that says that financial planners are now considered fiduciaries, and so that's made, and is going to make, very significant changes in the industry. I looked at a few different surveys and polls of what advisers thought about the rule, and all of them were similar to this. They think it's going to have a huge cost; it's going to have a negative impact on how much time advisers have to give to clients. They think it's going to reduce the amount of clients they have with low retirement savings, so they'll start working with only moderate- to high-net-worth asset clients. It's definitely going to have a really big impact, and I'll talk about that a little bit [later].

But what the heart of this [presentation] really is about is it's a message of hope—that on the surface it looks like we don't have enough money, we're not going to survive in retirement, but in reality, what is going on right now, the way our economy is changing, and the way that we work, and the way that we, as I said, access the skills and resources of others is creating a lot of really exciting possibilities for retirees and for the people who love them. I want to talk about what that means for us.

I was inspired to this topic by a fellow member of the Retirement Income Industry Association. A couple of years ago, he gave a presentation entitled "Think Like a Pig," and in that presentation, he had this graphic, and if you can't read what it says, this is a nice ham-and-egg breakfast, and at the bottom it says, "The chicken is involved, but the pig is committed." So how does that relate to retirement planning? Essentially, we spend a lot of time as financial planners, or even ourselves planning for our own retirement, thinking like a chicken does—like how many eggs are in our basket, what order are we going to eat those eggs in, how are we going to cook them. I mean, that's our focus, but in reality, when you're in retirement, nothing is off the table. Whatever it takes to stay off the plate of financial ruin we're willing to do.

If you think about your parents or maybe parents or grandparents of friends of yours, think about the ways that they may have made significant adjustments to their lifestyle or done things very differently than they might have planned to do when they were 55 or 60, in order to make retirement successful. They may have moved in with their kid, they may have taken a part-time job, they may have stopped spending what they planned to spend, they may have sold the house. So there are lots of things that are on the table that we don't always think about when we're looking at financial planning.

I ran into Dirk this summer, and we had just listened to a presentation on sustainable withdrawal rates, where it was comparing all the different ways that you can calculate withdrawal rates and the probability of ruin, so essentially saying, "If I invest this way and I take this much money, or I use this kind of dynamic withdrawal strategy, how likely is it that I'm actually going to run out of money and face natural ruin?" In talking afterward, he made this point to me: He said retirees, they don't actually run out of money, they just don't; they make changes.

That got me thinking in this way. On the left-hand side, you see the traditional financial-planning approach. You're sitting here, and you're looking at all your different pathways, and you're going to pick one of them to go down, but in reality, it's the picture on the right that is what actually happens to retirees. You pick a path, and you start down it, and then something happens, and so you change your path to something else, and then you change your path to something else, and so you have actually a lot of flexibility you don't always consider. Let's say those arrows [*pointing at the graph*] are the ones of financial ruin. You're going to avoid those and pick the other three. When you start to get to financial ruin, then you're making decisions that change the outcome for you.

Now, I actually got this graphic by doing a Google image search on the term "real options," and so what I want to get to is that this actually isn't just an "Oh, yeah, of course—common sense, you know—we make different decisions." This actually creates money that wasn't there before. It creates value; it creates assets for us. And so that's why I went down this road of real options, because it's actually something that's in a way quantifiable. So again, on the left-hand side, a traditional discounted cash flow approach. The right-hand side is real-options analysis. Where we see real options used routinely is in business development, so I'm going to give you a real-option example from business development.

Let's say you had an opportunity, project A, where you could invest a million dollars. Now, a year from now, you have a 60 percent chance of getting $1.5 million back or a 40 percent chance of losing everything. Now, let's say now you've got a real option, and this option is one essentially to cease and desist after a very small initial outlay. So you can spend $100,000 on a pilot project. It has the same probability of success: 60 percent probability of success, 40 percent probability of failure. But if the pilot project is successful, now the project A, the million-dollar investment, has a 90 percent chance of being successful. So project A, 60 percent of the time, you'll make half a million dollars, [and] 40 percent of the time you'll lose everything. So that's actually an expected loss of $100,000, a –10 percent return. You wouldn't do it. But just by adding that option to have an initial pilot project, it changes the percentages. So 54 percent of the time—that's the 60 percent that the pilot project is successful, so you invest the whole $1.1 million, and it has a 90 percent chance of success, [which] equals 54 percent—you're going to invest that $1.1 million, and you're going to make $1.5 million, so a $400,000 profit. Six percent of the time—that's the 10 percent that [the main project] fails [even though the pilot was successful]—you'll actually go ahead and put it [all] in, and then you'll still lose everything. Forty percent of the time, you'll just invest the $100,000, and you won't see it back. But now, when you do that math, you have an expected gain of $110,000, so suddenly this is a 10 percent gain on the $1.1 million investment. So now this is a profitable deal, and all we did was just add the ability to make a choice to cut our losses after the pilot project.

That's the same kind of thing essentially that retirees can do. I'm not going to try and quantify—I don't think I even could—what flexibility means for people in retirement, but the point is that it really does create value, it really does create money. It's not just a nice-to-have.

[Also] on the issue of flexibility, Wells Fargo had this pretty frightening study that came out. It was earlier this year, where essentially they said 49 percent—so almost half—of people retire earlier than they planned. That might be because they lost their job, their health got bad, they lost a spouse to death or divorce and decided to retire early, or they had to quit working because they had a parent they had to care for. The probabilities are really high. So job loss by the age of 62 [between the ages of 55 and 62]—in those [seven] years, one in five people will lose their job, one in four people will suffer a significant health decline, one in five people lose a spouse, and one in four people end up quitting so they can care for a parent. Flexibility isn't just a nice-to-have, it's absolutely essential for success in retirement.

On the topic of flexibility and traditional advice, this is a *U.S. News and World Report* Money article talking about how to prepare for financial shocks in retirement—very traditional things. You should rebalance your investments; have some money set aside for emergencies; plan for major health care expenses, like maybe have an HSA [health savings account] or a long-term care or critical-illness policy; maybe downsize your house; be tax smart; consider an annuity. Every one of these examples is focused on your financial assets, the dollars you've got and the things you own, and on planning in advance. None of them look at what could you do in the moment, and none of them consider the other sources of revenue-generating things that we've got. I would argue that traditional financial planning significantly underestimates the degree of flexibility that retirees have and the depth of resources that they have.

There are actually three sources of capital in retirement, and this is directly from RIIA, the

Retirement Income Industry Association. They developed this way to look at assets, and they said there's really three. There's financial capital, [which is] things we typically think about: It's your retirement account, your 401(k), your pension, your house, your car. There's social capital, where they add Social Security to that pot, but then they also say family, friends, and community. Then [there's] human capital. Traditionally, we think of that as the job, and whether we have a job and have an income in retirement, but it's really just a translation of our skills and interest into income. And that's one of the areas that is changing so significantly right now in our economy that I think, 10 years from now, we'll look back, and we won't believe how different it is how we make money.

Let's start with that human capital. It really started with Airbnb and Uber. These started to become ways that people could make money using the assets that they already have. [Take] Airbnb: Maybe they have a vacation home; maybe they travel frequently, and their house is empty; maybe they just have an extra room, but they're in an area where people come routinely for conferences or other things, and they can rent that extra room. So now, suddenly, something that you just had becomes a way to make money, and Uber the same way. You didn't have to join a taxi service, but if you have a car and some free time, you can make money on Uber by driving people around.

These have been joined by so many other apps that do similar things. Let me talk about a few of those. DogVacay is kind of cool. What that is, is if you like dogs and you want to dog-sit, you can join DogVacay, and you can dog-sit. Things where it used to be you had an employer, and you had to interview with them and get hired, and they give you jobs, suddenly now you're doing it on an app, and these are all controlled by essentially the reviews that people post on you. Just like Airbnb, if you rent your home out and people like it, and they post positive reviews, well, then more people are going to say, "Oh, I want to go to that home, too." It's all sort of self-regulated in that way, so there's such a low barrier to entry.

Upwork is an interesting one. That's actually one that I joined shortly after I left Milliman. I was going from 60-hour weeks to 0-hour weeks. It was, like, "What am I doing with myself?!" And so I joined Upwork, and I got tons of freelance projects. I edited a book. I edited a puzzle magazine. I wrote a bunch of reviews on hiking boots. I mean, it was just random stuff, but good money for just work on the side. TaskRabbit is similar, and it's kind of cool. I have a friend who used it recently. She was in Austin for a meeting, and she wanted to take her client to the best barbeque joint in Austin, Texas, but in order to get lunch at this place, you had to show up at 8:00 in the morning and wait in line until lunchtime, because otherwise, they'd run out of food. So she actually hired someone on TaskRabbit to go stand in line for 50 bucks. He stood in line for four hours, and then they went, and they got their food.

Meal Sharing is one where, well, it really is just that. You cook a meal, and you provide it to someone. I think Meal Sharing in particular is one where you host a dinner party at your house, but people pay you for the service, like you're a restaurant. They come and eat your food, your cooking, and they pay you for it.

RelayRides is one where, if you're in a big city where a lot of people use public transportation and don't have a car, but maybe sometimes need a car, then they can borrow your car to go do whatever it is they need to do.

Tons of stuff! NeighborGoods is interesting, too. That's one where, let's say you have a ladder, and you use that ladder like once a month, right? Well, you can rent it to your neighbor for $10 on this app. So they need a ladder; they pay you through the app. They come get your ladder; they bring it back when they're done. So just all kinds of ways that we have essentially made ourselves much, much more efficient.

I've seen a lot of comments and articles and stuff where people are commenting on the fact that our economy may be stagnating, and how can we possibly become more productive than we already are. This is a game changer on the concept of productivity, because things that we only use occasionally—the ladder, things that we do for ourselves already—like cooking—and could share with others, all sorts of ways that we can take bits and pieces of what we are good at, and [we] suddenly turn it into income that is not the formal "go get a job, have an employer" way of making money.

On the concept of social capital, obviously one piece of social capital is essentially charitable giving, right? Now, I talked to my parents about this, and they're like, "No way under any circumstances are we going to accept charity in retirement," but that is, I mean, a possibility.

So probably most of you have heard of GoFundMe, have even given to GoFundMe campaigns. There are other similar ones: YouCaring and GiveForward are similar to GoFundMe.

CrowdRise, Indiegogo and Kickstarter are all campaigns to start something. If you have some entrepreneurial concept that you want to start, those are great ways to fund it. What is an interesting statistic on that is that baby boomers are twice as likely to start a new business compared to millennials. In fact, something like 25 percent of entrepreneurs are actually over the age of 55. So people are really doing that in retirement. They've worked, they've retired, and now they've got a great idea, and they want to start it, and so those are good ways to fund it.

What's really fascinating to me about social capital are the ways in which you can use your social capital to essentially barter for things you would otherwise pay for. Let me give an example. Let's say I need my oil changed, and my neighbor always changes the oil in his own car, and I, if I take it [to the shop], I'm going to go pay $30, $35, $40 to get my oil changed. But he's got kids, and I could baby-sit his kids, so he could have a date night, and he'll change the oil in my car. Now suddenly, I have now bartered a service very easily.

What's happening with apps is that now there are lots and lots of ways to connect with people who are willing to barter services. Or even just people who want to help, who want to volunteer, who want to do something for someone else can use these apps in order to do that. Trade A Favor is similar to what I just described about the oil change and the babysitting, but Lotsa Helping Hands is really just a volunteer thing where you can help somebody. Let's say a tree's down in [an elderly couple's] front yard. Their kid can post on Lotsa Helping Hands that a tree's down in their front yard; they really could use someone with some chain saws to come chop it up and put it out to be picked up. And people on Lotsa Helping Hands can show up and do it. So lots of ways to access the resources and the friendly hearts of the people around you.

When I was talking with Jean-Marc about this presentation a few weeks ago, he mentioned to me something he'd read recently, which I find absolutely fascinating. I'm from Las Cruces, New Mexico. My parents are there, and they're 74, so they're getting up there. So they're there, and I'm in Dallas, so I'm a good 12 hours away, right? Let's say there's somebody who used to live in Dallas who has moved to Las Cruces to work for White Sands Missile Range, the NASA facility there, and their parents are back in Dallas. Well, we could connect with each other, and we could take care of each other's parents. There's an app for that. It's not like home health care—not that kind of stuff. But let's say they just need to go to the store once a week, and sometimes they need to be taken out for dinner. The things you would do for your parents if you lived there, but you can't do, because you're 12 hours away, suddenly you can do for each other's. I love that idea.

Now, on the issue of flexibility of financial capital, there are different ways to make your illiquid financial-capital assets liquid. A big one is your house. Usually, your biggest illiquid asset is the house you own, and so [there's] downsizing obviously, but reverse mortgages are actually a very appealing route, too. If you've ever considered a reverse mortgage or heard about it, or you think it's a bad idea but maybe you don't really understand them, there's a really good book called *What's the Deal With Reverse Mortgages?*, by Shelley Giordano. I've read it a couple different times, and I shared it with my parents, and it's really, really helpful. It talks about the regulatory issues, as well as all the details about exactly how they work and how you can use them in different ways, and so it's really, really interesting. Again, this isn't something you would do until you're pretty much in retirement. You have to be 62, but they can be really good.

Then the other issue I touched on before was health insurance and the fact that in pre-retirement planning, it's really important that you look at health insurance savings, because it can make a really big difference. This chart is actually from Ron Mastrogiovanni, who is also in RIIA with me but works with a company called HealthView Services, and he has a tremendous amount of information and insight on Medicare and means testing, and how to maximize or optimize Medicare means testing. Here's an example that shows the difference between making $92,000 in retirement income versus $160,000 in retirement income, [which] can increase your projected Part B and D costs by a million dollars—so not a significant amount of income difference, but a very significant amount of Medicare premium difference.

Then here are some of the things—again, this is from him—here are some of the things that could be used to reduce your modified adjusted gross income, because income from these things do not count in the modified adjusted gross income calculation. Roth 401(k)s and rollovers, nonqualified annuities, life insurance, longevity insurance, and health savings accounts are always [useful] to adjust where your assets are in order to eliminate surcharges.

That's the meat of the presentation, so I'd like to take questions, and I can talk a little bit more, too, about some other things, like the fiduciary rule.

JEAN-MARC FIX: Thank you, Tamara. We're open for questions now. You can go to the microphone, or if you'd rather, I can come to you—whichever.

STEVE VERNON: This is Steve Vernon. Thanks. It's a terrific presentation, thank you. I want to pose a scenario that I just would like your input on, because I've been working on a project with the SOA on income strategies in retirement. And it seems like the traditional model of the financial planner's role as advocate is they'll say, "Tell me what your expenses are, and then we'll create an income plan around that," and I contend that's the way planners and actuaries might think. The reality, I think, is if you tell a retiree, "Well, here's the income that you can realistically have from Social Security, your assets," and the retiree will then say, "Okay, then I'll plan my life around that income." And I contend that the second way is far more frequently used than the first way, but I just wanted to hear your perspective on that.

TAMARA BURDEN: I absolutely agree with you. I think the only time where that first method would be used is if you have more than enough money and you're not concerned about running out. I think, [in] any situation where you're constrained in your retirement income, that you really do have to look at ways to either reduce the amount of expenses you have at the beginning, so that your assets can equal them, or increase your income in retirement by any one of these ways in order to make it work.

STEVE VERNON: Well, thanks. The follow-on to that is it doesn't negate the value of planning—just that once you go through the exercise, then you realize, "Oh, I've got to go make more money or use the income-generating strategies you've described." So the starting point is looking at your expenses versus your income and then deciding if that works or not.

TAMARA BURDEN: Yeah, that's absolutely right, and I think one of the really important things for financial advisers is the ways that they can use this kind of information in helping prepare their clients for the idea of "If something happens, what are you going to do?" Because I think, too often, people don't call their financial planner several times a year and ask for advice. Like, if they come once a year for an update, that's good. A lot of people don't. They might come once and then, like, five years later. So what tends to happen is that they begin to deplete their assets very quickly, and then they go to the financial planner and say, "Oh, now what do I do?" whereas [they could have been] having this conversation up front that says, "Look, before you deplete your financial assets, think of all the other things you could do."

One example on reverse mortgages, for example: 2008, equity markets are really down, so now you need income. If you take that from your pool of assets that are 40 percent down on the equity side, now you've reduced the amount of assets you have to benefit from a market recovery. So you needed that money to live on; you had to take it out, right? But you didn't actually have to take it out, and that's where maybe at that point would have been a great time to get a reverse mortgage. Interest rates are really low; you get and then use that money to live on that year or maybe take it from a different retirement account that isn't equity heavy—other ways to think about making your bill payments without depleting financial capital as your first go-to, and people do tend to do that. The first thing they do is deplete their bank account, and that's actually the worst thing you can do, because it leaves you with the least flexibility later on. If you don't have any cash, it's difficult to make more cash and to make your payments.

JEFF GLOBERMAN: Hi, Tamara. I'm Jeff Globerman I work with OSFI (Office of Superintendent of Financial Institutions in Canada, and I'm interested in the social capital or the human capital you were discussing, because all those things you were talking about from CRA, which is Revenue Canada, and with the IRS, what is the impact? Because I can just see this thing attracting both the IRS and the CRA, because it's a revenue source, right? I get the feeling most people are probably not going to be reporting this income, and so is there—? There's that first question. So there's that danger. People won't know that they're actually supposed to be reporting this income. Second thing is from a safety perspective: You have people doing all these things, and I know with Uber in Canada, that's been a concern. How do you get around the whole safety issue, especially with seniors getting involved in this?

TAMARA BURDEN: Well, those are great questions, and they're not all answered yet, and these are all—this [sharing economy] is developing. Most of these apps are a year or two old at the most, but I think what we're seeing is, as I said, a fundamental change that's here to stay. And it's led by young people who think this is normal, and available absolutely for older people who are a little frightened by it, and so I think we're going to see more and more changes around it. [On the] issue of taxation, some of those have already been started to be addressed—like Upwork, for example, which reports what you make, so you've got to pay taxes on it, because they've reported it for you. I think we'll see others starting to follow suit as well. On the issue of safety, again, it becomes kind of a self-regulating mechanism based on reviews—reviews of the user and reviews of the provider. And just like if you're going to search for something on Google and want to figure out whether you should believe it or not, I mean, you have to be wise about your search; you have to be wise about your sources. This is kind of the same thing. I think that's a skill that people are going to start to develop. And in some ways, I mean, it's probably more secure in many ways than, say, an employer that may background-check their employees, because I mean, yeah, they might not have a criminal record yet, but they may not be very good people. And here, actually being able to report in detail and leave reviews on people may be more informative. But [yours are] very good points. I think those are just—we're going to have to adapt somehow to this new world.

JEAN-MARC FIX: I just want to ask a question on that topic. How many of you guys have used Uber ever? [*Nearly everyone raised their hands.*] Okay. Has the safety angle of Uber not crossed your mind when there are so many taxi regulations? I know I was very reluctant to use Uber the first time, and I'm still pretty reluctant, although I had a good experience. So I think there's a mental adjustment, and we're not a young bunch either on what is safe and unsafe, and I think—. Neil, do you have a comment on that?

NEIL CHARNESS: I was just going to comment a little bit, too, if I can jump in. I work in the area of age and technology, and there are a number of barriers to entry for today's seniors and, I'm going to argue, for tomorrow's seniors as well. First is that if you look at today, even sort of right now, 40 percent of people 65-plus will not have used the Internet in the past year. That's a huge group. Second problem is we're making assumptions that people's cognition is going to be maintained effectively across their life span, but by the time you get to about 85, at least 20 percent, as high as 40 percent of people have cognitive issues, and so there are some potential barriers. Then there's the attitudinal barrier. There's a lot of work looking at attitudes of people, and particularly today, scams are a big, big concern. I do some work in the area of seniors and financial fraud, and that's a huge concern, too. So I think these are all potentially—and I would agree, as people get more experience and develop some skills with them—these are potentially valuable ways to tap human capital, but we have to be cognizant of the potential barriers.

TAMARA BURDEN: No, that's very good. Two things: On the point of who is going to access this, I imagine that for the generation that's retired right now, the access is going to come through their children more than them. And then on the topic of cognition, it's the difference between what could you do between 65 and 75 or 65 and 80 that could really change how much money you've got to lead the very end of your life, and making a big difference there can solve that problem.

NEIL CHARNESS: The last question I was going to make is you're talking about your capital and preservation of capital. Having lived through 2008, and one of my companies got severely in trouble with segregated funds, which is equivalent to variable annuities, watching people see their stock values drop 40 to 50 percent—having said that, preservation of capital becomes almost more important in the low-interest-rate environment than absolute growth of capital. So what kind of hedging strategies do you see being put out there going forward that the average person close to retirement could even remotely understand?

TAMARA BURDEN: Right. Well, I think the biggest one is honestly deferred-income annuities. Those are fairly new. They're recently approved by the DOL [U.S. Department of Labor] to go inside of 401(k) plans, but those can really solve the question of income after say 85. And they're fairly affordable, because a deferred-income annuity that doesn't start until you're 85, everyone else who buys it who dies before they're 85, essentially their money goes into your pot. And so those are, actually, from a product perspective, I think, one of the greatest solutions out there right now for that very-old-age retirement income. On the concept of hedging, that's what I did with Milliman for years and years and years, and I think—again, I have a lot of admiration for RIIA, the Retirement Income Industry Association, and their thoughts around what they call their "Safety First" approach, or the idea that you want to make sure that your fixed living expenses get covered by fixed assets. They're not covered by equity, so that if you're going to invest in equity, you're going to do that in order to create supplemental income for yourself. You're not going to put the money at risk that you actually have to use to pay living expenses and things like that.

I think there's a lot of different ways in which things are changing in financial planning, things are changing in investing. At Milliman for the last five years, I focused on running hedging strategies for them, specifically for pension plans, but to try to protect against stock market crashes. And we have a lot of money, billions of dollars in that product, but there are also many other competitors that are offering hedging strategies, "safe equity," things that aren't just "Invest in equity and hold it for the long term," but things that dynamically adjust the amount of equity you have, depending on the riskiness of the stock market. And so I see some changes there as well. Again, I think when you're looking at financial planning and retirement, probably the key thing is don't put your monthly mortgage payment in the equity market.

ADAM BEARDSWORTH: Adam Beardsworth with Prudential. Thanks very much for the discussion. I particularly liked that you're connecting people's experience to something that's more akin to what they experience in their working lives—that you just sort of make ends meet. Your jobs are going to change; you may get laid off. This is what people are sort of used to, but what I think people are not used to is managing the financial side, especially in the working years, where employers take care of a lot of things. In the retirement space, we have increasing adoption of auto-enrollment and things like that. We talked a little bit about people seeking advice, and I'm thinking more about the mass market and the average person, who is probably not going to formally sit down with an adviser, doesn't have that sort of portfolio. What do you see evolving or developing for essentially the mass market? How do we help people manage the financial assets, when we've seen that people by and large aren't going to get "educated" on how to manage their financial resources? What do you see developing in that area?

TAMARA BURDEN: Well, that kind of brings me back to the topic of the DOL fiduciary rule. The problem is that the rule is going to significantly affect the ability of people like that to get retirement advice, and let me give a very basic example. It used to be if you wanted an annuity, you could go to a financial adviser, and you can say, "I really want an annuity," and they could give you an annuity, and you'd have to prove some kind of suitability, but you could get an annuity. Now the only way you can do it is essentially you need a financial plan, and the adviser has to get enough information—it's very vague, the DOL rule right now. Hopefully, more clarification will come forth, but essentially, they say you need to get enough information that you [as the financial adviser] can decide whether or not an annuity is truly in the best interest of that client.

Let's say, for example, a couple comes to you, wants an annuity. A year ago, you could sell them an annuity. Now, let's say they didn't tell you that the wife had cancer and had a pretty low life expectancy. They didn't tell you that, so now you can actually be sued, because you sold them an annuity, and you didn't find out that piece of information. Let's say you sold them a joint and survivor annuity. It was absolutely not in their best interest, because her life expectancy was six months, but she didn't come tell you that. So now under the DOL rule, the fact that you didn't find that out can get you in trouble. So that makes it very difficult to give casual or simple financial advice. You have to have this idea of know your client and understand your client before you can give them any advice whatsoever.

JEAN-MARC FIX: I'll have to interrupt you for the very, very last question, and then make it brief.

TAMARA BURDEN: I'm sorry. I don't think I actually addressed what he actually asked.

FROM THE FLOOR: I know we're done, so I'll ask a question we can talk [about] later, but to address the comment that you just made on financial advice. What do you think of the possibility of robo-advisers who claim, "We are programmed to act in your best interests," and then they have a documented trail digitally that they've asked all these questions? That might be a way to get advice to the masses at a reasonable cost. So I just put that idea out there.

TAMARA BURDEN: That is absolutely the direction that some people are going with the DOL rule, and why I couldn't really even address the DOL rule on this is it's so unclear what exactly is going to happen. There is no safe harbor they've created, there is no bright line they have created of what is sufficient information to give adequate advice. And so I think that's something that even possibly the new administration is going to make some changes there, but it's very unclear, and we won't really start to know until the lawsuits come in and it gets adjudicated in a court of law.

Definitely, that is the direction that some people are taking is "Well, let's just go the robo-adviser route in order to reach those people, because we can't possibly afford to give them personal, one-on-one financial planning at a low asset level."

JEAN-MARC FIX: Well, thank you, Tamara for this great presentation. [*brief conversation in the background with the sound people*] Oh, we have 10 minutes? Okay, plenty of questions. Steve, you can go back to the microphone.

ROB BROWN: Now that I found 10 minutes, I'm going to use it. Rob Brown. First, thank you very much for mentioning deeply deferred annuities. I'm glad to hear that they made the discussion. I was worried they weren't going to. Now, let's go back to the example of the couple with the wife who was terminally ill with cancer, but I'll soften it up. I'll say you're speaking to a client who is a blue-collar worker, slightly overweight, smokes a bit, high school education, nothing beyond that. Where do they find a market-value annuity?

TAMARA BURDEN: When you say, "Where do they find a market-value annuity—?"

ROB BROWN: Who's going to sell them an annuity that truly gives them market value for their life expectancy?

TAMARA BURDEN: Yeah, you're not, because annuities are really priced for the people who expect to live long. I mean, they really should get an annuity that—

ROB BROWN: But isn't this a failure of, A, the profession and, B, the industry?

TAMARA BURDEN: Yeah.

ROB BROWN: We should have risk classification.

TAMARA BURDEN: That's true, because at the moment we think of annuities as "If you expect to live a long time, buy an annuity," but in reality, annuities are a good way to get safe, steady, regular income even if you have a shorter life expectancy. But if they don't fit you, that's absolutely right. Rated annuities are difficult to come by, yeah. If anyone works for insurance companies and they can comment on that, please do.

JEAN-MARC FIX: Rob can comment on that. We have time for more questions, if you want to give the answer to the question I interrupted.

TAMARA BURDEN: So [Adam's] question was really one of how does the mass market get financial-planning advice, and I mean this—where was it on the DOL rule back here somewhere? [*looking for the right slide*]—yeah, essentially advisers are saying they're not going to touch them. The amount of time that they're going to have to spend on compliance-related tasks, on the cost of doing business, on adviser compensation, like, all of that is going to mean that the mass market client doesn't have access to advisers. And that's the biggest argument against what the DOL has done with the fiduciary rule. We understand the idea of better protecting the customer by making the adviser a fiduciary, so making them have to make decisions in the best interest of their client, like, that on the surface is a great idea. But the way to do it and what the DOL's laid out—as well as just what common sense tells us is the way to do it—means that it's going to be very expensive to implement. And so at the moment, there aren't—other than possibly robo-advising—a lot of good solutions for the mass market, there really isn't. That actually points more to the fact that if the solution isn't going to be in how you manage the assets you have right now, your solution to a successful retirement is going to be in other things you can do that aren't focused on how you manage those assets.

FRED VETTESE: My name is Fred Vettese. I know that retirees don't want to spend their principal; they tend to spend all the interest. And it's understandable, if they haven't got much in the way of assets, that they don't want to deplete what they have and run out, but does it go beyond that? And what about people who have more money? I look at my own parents. My dad died a couple years ago, but even late in life, they [my parents] had much more money than they ever needed, but they still didn't want to spend it. Does it go beyond? Is there a behavioral phenomenon going on that there's an anxiety about depleting your assets that's kind of tied in with your self-worth and such? And you're building up your whole lifetime, and it's kind of, I guess, rewarding to accumulate assets, but to spend it down, it's kind of like you're spending down your human capital as well at the same time. Is there anything that you've seen, I guess, that's along those kind of lines? And is there any name for that phenomenon, if it does exist?

TAMARA BURDEN: Yeah. I don't know a name for a phenomenon, but it certainly made me think of, like, grasshoppers versus ants, you know. My parents are grasshoppers, unfortunately. If they have it, they spend it, and they spend it well, and they keep working—74, still working. You find it in every generation—people who are worried about running out of money to the point that they just don't spend what they could have, and they have a much-reduced lifestyle because of it.

There's a recent article that I read that's really fascinating called "Slaying the Wrong Dragon" that addresses the concept of success in retirement meaning two things: It means not running out of money, and it means not having too much. Success in retirement is having just enough money to get through to the end, maybe leave a little bit of a legacy or whatever you want to do, but not what they call upside failure, which is where you've got tons more money than you ever could use, and you can't take it with you. I mean, I think the best approach to that is really one of education and reassurance, that "Look, you really are safe; you really have enough money. We've put it in annuities; you really are secure, you've got stuff for emergencies. Go ahead and use some—spend it while you can, enjoy it." It's really one of education, which is a difficult concept.

SUE SAMES: Sue Sames. I would call them Depression-era babies. That was what I ran into with my parents and my husband's parents. They were born during the Depression, and they just had philosophically a different viewpoint. For example, the concept of "upside failure" they would have found offensive.

TAMARA BURDEN: You never could have enough, yeah, yeah.

SUE SAMES: The idea that they could just go out and consume—they would not have cared for that at all. I mean, that was just a psychologically different orientation to things. So they just never would have been comfortable with that idea. Do you want to talk a bit—some of the other sessions, Anna Rappaport and others have done a lot of research with the specific risks in retirement for women. Women tend to be a few years younger than their husbands and tend to be the ones who are the caregivers, tend to be the ones who typically outlive their husbands, tend to be the ones who are the oldest old, tend to have more needs. So I'm just interested if you've got comments on that issue as well.

TAMARA BURDEN: Yeah. Actually, I had given some statistics from Ron Mastrogiovanni of HealthView Services, and he also has a lot of information on specifically that topic of women in retirement. For example, the average women is going to need a whole year more of skilled nursing care than her husband, because she's going to take care of her husband, he is going to die younger, and then she's going to need the skilled nursing care. So he might only need a year or a year and a half, and she's going to need on average two and a half years. Also, typically less income, typically less social security for a woman than a man. And as you said, [they] live longer—

SUE SAMES: And I also think, quickly, what you had in there—the loss of spouse, the divorce—I certainly think that that hits women differently. So you mentioned—is it RIIA?—did they also have specific information that they've been developing to make sure that when you're doing financial planning for a couple, are you also helping them to think about what happens when there's only one of them?

TAMARA BURDEN: Yeah, absolutely. One of the interesting statistics that RIIA reported on a survey of advisers is how many times financial planners lose the business after the husband dies, because the financial planner was focused on the husband—wasn't listening to the wife, wasn't involving, really, the wife, but she's the one who probably has a lot of say over the money in the marriage and certainly has all the say after the husband dies. And so statistics [show that] something like 65 percent of widows go to a different financial planner, and 90 percent of children go to a different financial planner. That was one thing that RIIA really emphasized: If you're not looking at the entire family, you're very likely to lose the business, and obviously you don't want to do that, but then in addition, you want to be sure that you're providing the family good advice and considering absolutely what's going to happen to the spouse that's left behind.

SUE SAMES: Good comments, thanks. I really liked the part, the social capital and all that. It was very interesting.

JEAN-MARC FIX: I think this is going to be the real last question this time.

FROM THE FLOOR: It's actually more a comment or an answer to your question than it is an actual question. You asked whether there is an explanation or a name for that. There are an awful lot of behavioral biases or cognitive biases that explain why people behave irrationally, and particularly the fact that people want to have money sitting around can be explained by two of them. One is simple loss aversion. If you spend the money, then at the end of the year, you'll have less money in your bank account, and the loss from the lower bank account is perceived as much worse than the utility from actually spending the money and buying something nice. So loss aversion can explain it. The other one is something that behavioral economists call the endowment effect. Once you own something, you value it at much more than its actual worth is. There was this very, very famous example where people are asked, “What are you willing to pay for a coffee cup?” and they are willing to pay, like, $2. And then you gift them the cup and say, “How much money do I have to pay to buy it back?” and even after five seconds when it’s in their possession, it’s their cup, and they value it at $5. This seems to hold for money as well. The money that’s in my bank account is something that I value more than it’s actually worth, and that’s why I don’t want to spend it. Thank you.

TAMARA BURDEN: Thank you very much for that, and on that [concept of] “successful retirement,” we absolutely as financial planners have to change our view. It’s not what *we* define as success; it’s what *they* define as success. If their goal is to not spend their money and have a lot left over so that they felt safe all their retirement long, that’s success for them, whatever we think.

JEAN-MARC FIX: Well, thank you very much again. [*Applause*] We’ll see you back at the next session at 10:45, so you have time to check out. Thank you.