

May 2011, Issue No. 74



LinkedIn



Share

Print-Friendly
ArticleSearch
Back issues

POLL

IN THIS ISSUE

[Chairperson's Corner](#)

[Notes from the Editor](#)

[A View from The Pension
Staff Fellow](#)

[Perspectives from Anna:
Longevity: Getting Older
Happens: Annuitization:
Thinking about Things in
Different Ways](#)

[CERA Op-Ed:
Managing Systemic Risk
in Retirement Systems](#)

[Will Disability also Harm
My Retirement Security?](#)

[The 2011 Living to 100
Symposium:](#)

[A Compilation of
Attending Actuaries'
Comments](#)

[Women at Risk: Securing
Retirement Benefits in
Divorce](#)

[Research Conducted by
the Pension Section](#)

PERSPECTIVES FROM ANNA:

LONGEVITY; GETTING OLDER HAPPENS; ANNUITIZATION ...
THINKING ABOUT THINGS IN DIFFERENT WAYS

By Anna Rappaport

During 2010 I participated in a number of meetings with different groups and had the chance to meet interesting people and talk about a range of ideas. New ideas help me think about things differently. I am bringing some of them to you to see if they help spark new ideas for you or add to the collection of ideas you are focused on.

Some of the groups I met with included:

- Financial Planning Association retreat
- Investment Company Institute Annual Meeting
- Intercompany Long Term Care Insurance (ILTCI) Conference
- The Conference Board Retirement Roundtable
- The Society of Actuaries (SOA) *Retirement 20/20* Conference.

Thinking about Longevity—Opportunity, Risk or Both?

During the year, I had the privilege of presenting at the ILTCI Conference with Steve Mitchell, the COO of Retirement Income Industry Association (RIIA) and also an independent retirement consultant. We talked about long life and the big picture issues. Steve proposed that we should think more about the opportunities that come with the potential of long life, and not be as focused on the risks. This sparked a discussion of the topic with several of the people whom I have worked with as part of the Post-Retirement Needs and Risks Task Force. While the idea of "opportunity" intrigued some discussants, it seemed to frighten others, perhaps partially linked to economic circumstance. Economically, the population falls along the following spectrum:

[Council](#)

[Call for Section Election](#)

[Candidates](#)

[SOA News Today Has a](#)

[New Look! Improved](#)

[Navigation!](#)

LINKS



[SOA Pension
Section Web Page](#)



[20 / 20 Web site](#)



[Contact the Editor](#)



[Calendar of Events](#)

- At the lower end are people with little in the way of financial assets and income beyond Social Security and Medicare. Running out of money is not a concern for this group, since they will have about the same support throughout retirement as long as the government programs continue at about the same level. "Risk management," where they are making their own decisions about financial products, is not part of their life. Rather, many in this group live financially from period to period. For them, opportunity, very possibly in the form of continued work, can help to improve their life from both a financial and engagement point of view.
- At the high end are people who have investment income that more than covers their regular expenses and assets that may well continue to grow over time. Maximizing estate values is often a priority, and for this group the age 70 1/2 Required Minimum Distributions are likely to be their personal default option for withdrawing defined-contribution (DC) and other tax-sheltered funds. For this group, opportunity is very important as they think about a long life span, again from both a financial and engagement point of view. They may wish to think about how they can personally make a difference, how to stay engaged, and what, if any, legacy they wish to leave behind. They have complex financial issues that, no doubt, include risk management; but focusing on life planning from the point of view of opportunity makes a lot of sense.
- It is the group in the middle that faces the greatest likelihood of running out of money or being ruined by unexpected long-term care or medical costs. This group has choices to make and, depending on how well they manage, can have more life choices and a more enjoyable and productive time during retirement. Risk management, budgeting and planning are very important for them, particularly if their resources are self-managed rather than defined-benefit-plan income. It seems that the issue is not choosing between risk and opportunity, but rather achieving a proper balance between them.

"Getting Older Happens"

At the Financial Planning Association retreat, I met Colin Ben Coombs, author of the website, "Getting Older Happens,"

GettingOlderHappens.com. The website offers interesting perspectives on the realities of old age. Here are three quotes from Coombs' website:

- *"One of the goals of this website is to motivate you to take command and control of your aging; therefore we want to give you*

every opportunity to delve deeper into all the aspects of aging that interest you and to find competent sources of advice and counsel. You will read many times throughout this website that action is required."

- *"All of the articles and essays, whether written by your host or by others, will be organized in 9 topical categories: Getting Older Happens, Stories, Envision But Don't Accelerate, Home is Where?, Financial Management, Living with the Realities of Your Estate Planning, How You Leave is Just as Important as How You Lived, Leave Your Wisdom Not Just Your Wealth and What Do I Do Now?"*
- *"There are going to be many readers who have had this very basic estate planning done or have even done some very extensive planning. But, I would hazard a guess, that most don't have the faintest idea about what it will be like for the surviving spouse or subsequent heirs to live with the implementation and management of this estate planning structure after their death. I have lived through this with any number of surviving spouses—male and female—and beyond that with their children."*

The website includes a **Lifestyle and Circumstances Audit**, which is focused on answering the questions: "*How are We Doing and Can it Continue? If Not, What's Next?*" A major focus of the 2007 SOA Risks and Process of Retirement Survey was what changes during retirement and how people plan for later stages. A special report on the phases of retirement documents that research. However, there was no focus on how people make the transition, and whether it is voluntary or forced on them.

The idea of a lifestyle and circumstances audit is extremely interesting and important. When my mother was living in a senior community, we discussed whether she thought the people were happy there. She responded that some were and some were not, and as we pursued the conversation, her perception was that the people who had chosen to live there themselves were mostly satisfied and the people who had been sent there by their children were mostly unhappy. Having a process in place to help people make this type of decision is very important.

The website "Getting Older Happens" offers many stories, including that of Sarah and Cita. This particular story brings forward the issues of helping people make decisions in similar circumstances, and illustrates two different situations and the challenges in them. Sarah and Cita were both moved, against their will, by their children. Sarah was moved into a continuing care retirement community, and Cita was moved into independent living followed by assisted living. Sarah was moved while she

was still able to care for herself. She became engaged in the community, but resented the move. Cita remained at home beyond the point where she could still care for herself. She was unable to do her chores, clean her house, fix proper meals or go out walking (due to her loss of sight). Following an accident and a number of other incidents, her children moved her. Like Sarah, Cita was unhappy with the move. The question these two stories raise is which set of children made the wrong decision?

"Was it Sarah's two sons who moved her against her wishes when she was still very active and engaged in life or was it Cita's two daughters who moved her against her wishes when she had become mentally and physically unable to care for herself?"

"The answer? Neither of them made the mistake. It was Sarah and Cita who made the mistake of not envisioning their future and the possible outcomes as they aged. If they had, they could have (should have) given guidance to their children as to what they would want when they could no longer live as they had been living and guidelines on how to make that determination. It is possible, even likely, that when the time came for a move they would still have been resistant and unhappy but, at least, the children would have known that they were doing what their mothers had wanted them to do when they were in a position to think things through with detachment. If this had been the case both Sarah and Cita would have retained their autonomy and control over their lives. As it was they lost that and their children were never certain that they had done the right thing."

I felt that there was a lot of wisdom in the comments and content in "Getting Older Happens," and I recommend that readers consider this approach and how it fits into traditional planning. Readers may agree with the specifics of the lifestyle and circumstances audit as set forth or may have different ideas. Regardless, being prepared for next steps when change is necessary is essential.

Retirement 20/20—Some Quick Observations about the Payout Period

During 2010, papers were presented as part of *Retirement 20/20* offering ideas for the retirement system of the future. The topics overlapped and varied, and in total they offered a valuable resource for the future. Most of the papers focused on an organized and systematic way of using accumulated retirement resources to provide retirement income. Some of the variations in that retirement income included:

- Mandating or not mandating an annuity payout
- Inclusion of indexing for inflation in the annuity payout

- Varying the payout with investment experience (an approach now used in variable annuity contracts for many years)
- Sharing the risk that population mortality improves over entire population by using pools linked to cohorts
- Using Treasury inflation-protected securities (TIPS) as an investment to offer inflation protection with minimal risk
- Using longevity insurance that starts at a high age.

The majority of the authors are very supportive to organized systems of annuity payment. Many actuaries and economists who are not in this author pool also favor systematic payouts.

Are the Experts Aligned with Other Stakeholders?

In June 2010, just two weeks after *Retirement 20/20*, The Conference Board sponsored a Retirement Roundtable, offering a chance for plan sponsors to get together and share their concerns and priorities. I had the privilege of serving as co-chair of the roundtable and working to get input from the participants about their major concerns surrounding retirement plans today. The participating employers were mostly from larger organizations in a range of industries. As the world has shifted more and more toward DC plans, lump sums are the most common method of payout.

Methods of managing the payout period are not high on the priority list of the plan sponsors, and it seems that an increasing number of plan sponsors do not consider it to be their problem. In many cases, people have multiple jobs during their careers and the plan sponsors' mentality makes sense. It seems to me that there is a totally different perspective about the payout period from these two groups: plan sponsors view payout period as an individual responsibility; and experts thinking about the future of the retirement system are concerned about how to build in well-structured payouts.

We can get more insight into this topic if we look at the responses to the Request for Information sent out by the U.S. Department of Labor and the Treasury Department. They asked a long list of questions about the payout period and received over 700 responses, which are available online for those who wish to study them. My big takeaway from them is that there is a great deal of diversity of opinion and opposition to any mandates. Some of the takeaways from the Request for Information responses, *Retirement 20/20* and other work on this topic are as follows:

- Individuals are very opposed to any idea of a mandate related to

annuitization or life income. They consider their 401(k) balances to be their own money and want full control. SOA research would indicate that they do not necessarily have a plan for making the money last. Anecdotal information from talking to many people indicates that, for some, the intention is to retain that money as savings and not to use it unless absolutely necessary. They often seem to view these funds as a combination of an emergency fund and a potential inheritance. One of the unfortunate results is that the money is often spent to care for the first spouse who gets sick, and the surviving spouse may be left without very much.

- Some experts point out that Social Security, which is already annuitized, is a major part of income for many. Medicare is also a form of annuity. Furthermore, for people who own their home without a mortgage, the reduction in living expenses due to reduced monthly outlays into a home is considered by some to be similar to an annuity. As a result, people with limited additional financial assets are heavily annuitized.
- Employers who are very concerned about the security of employees during the payout period remain very concerned about fiduciary liability and the complexities of offering options when few employees elect them. Those employers who have offered these options had very low elections. A method of providing such annuities that is gaining acceptance is rollover IRAs, which offer access to institutionally priced annuities. This approach provides for competitive shopping for annuities and allows for partial annuitization and gradual annuitization.
- Many actuaries and economists think that systematic payout plans—preferably annuities—are very desirable, particularly for DC plans which are the primary source of income. They point out that these plans have replaced traditional retirement plans and the life income is the key idea. They generally favor joint and survivor annuities. People have different views on whether the life income should be mandatory.
- Another approach that leads to a stable income stream but at a lower level is investing in TIPS. This is favored by some economists and in some of the *Retirement 20/20* papers.

Annuitization or No Annuitization? The Real Conversations are Just Beginning

Annuitization is not an all-or-nothing proposition. One of the challenges is helping people figure out the right balance and the right timing for annuity purchases. I believe that it is virtually impossible to mandate annuity

payouts from DC plans, but the payout period will continue to be an important topic with increasing attention paid to it. I plan to focus on this topic in further work.

Anna Rappaport, FSA, is an internationally recognized expert on the impact of change on retirement systems and workforce issues. She is a former consulting actuary at Mercer and former president of the SOA. Currently, Rappaport is president of Anna Rappaport Consulting in Chicago, Ill. She can be reached at anna@annarappaport.com.

Actuaries
Risk is Opportunity.™