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Announcement of Essay Publication and Winners: Products, Tools, and Strategies That Address Retirement Risks

By Andrea Sellars and John Cutler

The Society of Actuaries' (SOA) Committee on Post-Retirement Needs and Risks issued its fifth annual call for essays in September 2019. Previous essay collections addressed a variety of issues including diverse risks encountered in retirement; developments in financial wellness; perspectives and potential solutions to the problem of ensuring retirement preparedness and innovations for securing future retirements; and the role that family structure can have on financial and retirement security. The collections can be found on the SOA website at: <https://www.soa.org/research/topics/research-post-retirement-needs-and-risks/#other>.

This fifth call for essays aimed to gather perspectives, opinions and data on how to advance the state of effective retirement planning tools, products, and strategies to assist individuals, financial advisors, employers and other stakeholders. The goal was to meet two objectives: (1) identify retirement risks, and (2) how to better plan for and maintain a secure retirement. Fourteen essays were submitted. John Cutler and Andrea Sellars chaired the project oversight group that developed the topic for the essays and overall goal. A panel of judges completed a blinded review of the essays for publication and awards. The judges selected three essays for awards with \$3,500 awarded per essay. Consideration was given to creativity, originality and the extent to which an idea could contribute to the further development of solutions. The winning essays will be published in upcoming issues of the *Retirement Section News*.

The winning essays are the following:



- R. Evan Inglis, “A Risk-Based Framework for Making Retirement Income Decisions.” This essay provides a framework for making retirement decisions as to how much one can spend in retirement, how much lifetime (annuity) income is needed, and how one should allocate their retirement assets. The approach described provides an integrated solution that includes the availability of a lifetime income in the decision about asset allocation, which often results in a more aggressive decumulation portfolio than other more conventional methods.
- Robert C. Merton, Arun S. Muralidhar and Paula H. Hogan, “SeLFIES: A-New(-ity) Look for Retirement.” This essay poses a retirement planning challenge that looks to finance science to suggest what the authors regard as an elegantly simple solution to help individuals prepare for a financially secure retirement. Their concept is the creation of a simple new financial instrument that is a win-win-win for individuals, governments and the financial services industry. The authors propose that governments globally issue new long-term bonds, nicknamed SeLFIES—“Standard of Living Indexed, Forward-starting, Income-only Securities” that are a series of government-issued bonds, designed to mimic pension payments, that can be purchased directly by individuals (to create a type of “individual DB”) or institutions from their respective governments. The essay covers the mechanics, uses and advantages of such an instrument to the individual, financial institutions and the government.

PUBLISH YOUR IDEAS!

The Retirement Section's current calls for essays include COVID-19, Work and Journey to Retirement, and Redefining the Goals of Retirement Planning. For more information, please visit <https://www.soa.org/research/opportunities/call-for-papers-list/>

- Yael Hadass, Marion Laboure, Sally Shen and John Turner, "New Approaches to Communicating to Workers About Pensions." This essay presents the case that in a voluntary pension system, retirement communications need to address four components: 1) the information transmitted; 2) the way in which the information is presented; 3) the way the information is transmitted; and 4) the format in which the information is transmitted. The new approach would add elements of humor, gamification, artificial intelligence and personalization all designed to encourage action (e.g., such as participating in a plan).

Our congratulations go to those authors for their excellent, thought provoking submissions.

The 11 essays listed below also contain excellent ideas and other innovative solutions including:

- "Collective Defined Contribution: Time to Take Action" by Elizabeth Bauer describes plans that attempt to create a hybrid pension approach with characteristics of both Defined Benefit and Defined Contribution plans. Participants share risks collectively rather than bearing them individually as in DC plans; or having them protected by employers as in DB plans. It reviews the features of plans found in the Netherlands, Canada, and features found in Taft Hartley multiemployer plans as well as in Wisconsin Retirement System plans. It challenges the profession to use our skills to define and ultimately promote a new hybrid system.
- "Hedging Against Inflation Risk With Real Annuities" by Zvi Bodie and Dirk Cotton presents a case for insurers to offer—and annuitants to elect—a "real annuity" (often referred to as an inflation-indexed single-premium immediate annuity) that both insures against longevity risk and hedges against inflation by linking the benefit to the consumer price index. The essay presents pros and cons and financial illustrations of the cost/benefit of the approach versus a "nominal annuity" that ignores inflation.
- "The 100-Month Protection Plan: A Private Social Security Annuity" by John Cutler proposes adding a right to allow individuals to buy an additional annuity at age 62 through the Social Security system to enable the enrollee to defer his usual Social Security benefit until age 70—eight years or roughly 100 months—and thereby get more of an income stream for a delayed start. The essay covers details about how this annuity could be structured, and issues pertaining to this approach.
- "Tontine Savings Accounts" by Jonathan Barry Forman and Richard K. Fullmer presents a case for using open-ended "Tontine Saving Accounts" that would add a feature to regular savings accounts by sharing in mortality pooling. The pools envisioned would allow individual selection of investments and payout options but would function like annuities by not allowing early withdrawals. The financial arrangement would require investors to mutually and irrevocably agree to receive payouts while living; and forfeit the remaining portion of their accounts upon death to the surviving investors. Financial illustrations are provided and suggest investors could receive a valuable source of lifetime income from such a product.
- "A Danish Perspective on Investment-Based Retirement Income: Innovative DC Retirement Income Solutions From Denmark" by Per U.K. Linnemann gives a thorough review of the Danish investment-based retirement income solutions (iTDFs) and smoothed income annuities (SIAs), their design elements, optional features, functions and advantages over traditional income payment options.
- "Aromer: Solving the Catch-22 of the 401(k)" by Kalon McMahon describes a new retirement strategy/product dubbed AROMER that is a fully funded retirement investment account option whereby a third-party financier offers to contribute to a retirement plan account on behalf of a plan participant. This creates an additional retirement plan participant and converts a non-saver into a saver without requiring them to take any action or make any lifestyle changes. This product does not create a loan but, in exchange for funding the participant's retirement account, the financier is entitled to a majority split (60/40) of the retirement plan balance.
- "Take Ownership of Your Retirement Process: Oversight Tool to Understand Risks" by Max J. Rudolph shares a tool the author uses to build individual alternative retirement planning scenarios, allowing him to better understand which assumptions are the drivers of his own personal situation. He covers the tools assumptions, variables, and sample base and alternative scenarios and how they could be used by others.
- "Introducing the Total Benefit Account: A Single Source of Employer Funding for Employee Needs" by Doug Spencer and Greg Ward proposes that instead of employers sponsoring separate plans to pay separate benefits they allow

employers to set up one “Total Benefit” account to pay all benefits on a pre-tax basis (excepting the employer retirement plan matching contributions). The essay discusses how this structure would benefit employees at different stages of life and under different circumstances; and employers in controlling and lowering costs.

- “Think Like an Actuary to Assess and Mitigate Retirement Risks” by Ken Steiner proposes that households should apply the traditional actuarial balance sheet approach and pension cost equations to personal financial planning. The author presents the balance sheet equation, the sources of income and expenditures to be considered, the elements of risks to be considered, and the characteristics of an effective tool that would incorporate the recommendation.
- “Strategies for Addressing Retirement Risks” by Anil Suri and Nevenka Vrdoljak presents steps people can take to help boost retirement finances by addressing key retirement risks. The essay describes four risks that retirees face: longevity, health care, sequence of returns, and inflation. It examines strategies that may help mitigate these risks and the financial implications of each: wisely deciding when to retire, carefully choosing when to claim Social Security, allocating assets to a lifetime income annuity, prudently drawing down assets from a balanced portfolio, and planning ahead for future possible long-term care needs.
- “Layered Liquidity Management in Retirement” by Gwen Yun Weng divides the liquidity needs in retirement into three layers based on the likelihood and predictability of the liquidity events and proposes a management framework and strategies to manage each layer. The essay proposes that a

simple framework could help retirees understand and analyze their financial needs in a clear and systematic manner.

As in previous years, we hope the publication of these essays will further add to our knowledge base, stimulate discussion and promote future efforts in this area. Plans are underway for the next call for essays and thoughts for future topics are always welcome.

Finally, our appreciation and congratulations again go out to all of our authors who have contributed to another successful year, and our thanks go out to the members of the Project Oversight Group for their participation and contribution to this effort.

POG members are: John Cutler (co-chair), Andrea Sellars (co-chair), Anna Rappaport, Barb Hogg, Carol Bogosian, Cindy Levering, David Manuszak, David Rogofsky, Joel Sklar, Julie Stich, Kenn Tacchino, Robert Eaton, Sara Rix, Steve Newman, Suzanne Gelnett, Ted Goldman, Vickie Bajtelsmit. ■



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