Informal Discussion Transcript

Session 5C - Leaving Worries Behind: Risk Management Strategies for Individuals to Address the Economic Issues Related to Increased Longevity

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Session 5C - Leaving Worries Behind: Risk Management Strategies for Individuals to Address the Economic Issues Related to Increased Longevity

ARNOLD DICKE: Hello, everyone, and welcome to session 5C. I want to start out by thanking Rob Brown, who is actually the new president of the IAA [International Actuarial Association], for pitching this session. I don't know if he knew he did but he said the U.S. has a private sector problem and why aren't we marketing some of these annuities and various things enough. Well, actually, we're going to be talking about some of those very products today and one of the focuses we want to have is on the barriers that have kept these things from being used as much as they should have been. I think that was a very nice introduction. I don't know if he made it for us intentionally, I doubt that, he didn't even know our session was happening, so I appreciate that and I'm glad you were all here.

This whole thing sort of came out of a group that I headed at the American Academy of Actuaries. It was called a public interest task force and we were looking into some of the things that we thought might be fixable out there that actuaries could have some input into. And some of the things that came up were products and other approaches to helping people in retirement, but some of the things had to do with products that were available from the private sector that might be able to be helpful and some of the reasons why maybe they weren't. So that brought up the idea

of discussing some of these products and services here in a way that might be helpful in the context of people that are thinking about the problems of old age and of increasing longevity and the economic problems that are caused by that.

We have a very wonderful panel here today and I'm going to give you all their introductions now and then we're going to go straight to the presentation and at the end hopefully have some time for questions. Our first panelist is Christine Fahlund, Ph.D. and CFP. She's a senior financial planner and vice president at T. Rowe Price Group with more than 25 years of experience in financial planning. Christine is often quoted in the national financial press, including the *Wall Street Journal*, *The New York Times*, *Forbes* and *Kiplinger's*, and has appeared on several business programs, such as CNBC and Moringstar.com and Marketwatch.com. She's a series 7 and 66 registered rep and specializes in the areas of retirement accumulation strategies, retirement distribution planning and estate planning, and she's also responsible for technical financial planning content and analysis for the firm for use in its publications and for developing new financial planning products and services across the distribution channels. She interestingly has a B.A. in biochemistry from Mount Holyoke and a doctorate in

biochemistry from the University of Massachusetts/five-college Ph.D. program, so even in this session we are being interdisciplinary.

The second presenter is going to be Rob Painter, and by the way, Christine, as you see, was from the investment world and Rob is also from an investment bank. He joined Deutsche Bank in June 2007 to build a global asset liability structured solutions platform for insurance companies, within its cross asset product training group, where he managed Deutsche Bank's global variable annuity product and hedging platform and oversaw insurance solution development within the U.S. In 2013, he joined Deutsche Asset Management as global head of insurance and annuity products. Prior to being at Deutsche Bank, he was senior vice president within the Conning & Company unit of Swiss Re and at Conning, he was a lead asset liability management adviser, where he was in charge of developing investment, liability and capital management strategies for the insurance companies. He's an associate of both the Casualty Actuarial Society and Society of Actuaries, a member of the American Academy of Actuaries and a chartered enterprise risk analyst. He has held a variety of management roles in the U.S. and international insurers and is active in the developing area of enterprise risk management and regularly speaks at conferences on risk and capital management

issues, with a focus on variable annuity risk management. He's a graduate of Wheaton College with degrees in mathematics and economics.

Our third speaker comes from LIMRA. Joe Montminy is an ASA and an MAAA and he's assistant vice president of retirement research for LIMRA's Security Retirement Institute. He joined LIMRA in 2005 and is responsible for managing LIMRA's individual annuity research program. He oversees annuity benchmarking studies, various research studies relating to the annuity market and supervises online services that provide participating companies with access to annuity product materials and interest rates. He serves as a staff representative for LIMRA's annuity committee and has worked on annuity compensation, conservation, straight through processing, buyer owner profit studies and so forth. Prior to joining LIMRA, he worked at Travelers pricing insurance products, reserving for its individual annuity products and conducting asset liability analyses on the individual annuity business. He also worked as a defined benefit consultant with the Wyatt Company. He graduated from the American International Colleges in 1985 and is an associate of the Society of Actuaries and a member of the American Academy of Actuaries.

Our next presenter after that is Harrison Weaver, who

is a consultant in the Atlanta office of Oliver Wyman. He specializes in fixed annuities, both immediate and deferred, as well as longevity insurance. Harrison was added to the panel because he wrote a very interesting paper on longevity insurance in one of the society publications and that's what he'll be talking about today.

Harrison has worked in the actuarial field for over five years. Prior to joining Oliver Wyman, he was a member of the annuity products division at Western and Southern Financial Group, providing analysis, pricing and managing fixed annuities.

Finally, Bill Silbert has certainly probably not spoken at actuarial meetings before. He's a director of marketing and public relations at the Kendal Corp., which you'll hear more about, but it is an organization that is in the CCRC world, the continuing care retirement community world. He has 27 years of experience in marketing and public relations in senior living communities. Presently he is director for marketing and public relations for Kendal. Prior to joining Kendal, he served as vice president for church and public relations for Presby's Homes and Services in Lafayette Hill, Pennsylvania, a not-for-profit, multi-entity organization of CCRCs, assisted living residences, skilled nursing facilities and subsidized housing programs.

Prior to that, Bill was director for marketing at

Sherwood Oaks, a not-for-profit CCRC located in Cranberry Township, Pennsylvania. At Kendal, Bill's responsibilities include supporting Kendal communities and services on a variety of marketing and public relations issues and challenges, supporting Kendal's new project development team with marketing planning and implementation for expansion of existing Kendal affiliates, as well as development of new communities and services. Bill leads and coordinates marketing and public relations initiatives for the Kendal system, including branding studies, the development of promotional tools, including Kendal's web presence. He's a founding member and past president of the Pennsylvania Marketing and Public Relations Society of Senior Housing Professionals, a 120-member professional organization representing over 80 not-for-profit long-term care providers, and also serves on the steering committee of Leading Edges Marketing Professional Network. He holds a master's in education from the University of Pittsburgh, and a B.A. in religion from Muskingum College in New Concord, Ohio. Sorry, I didn't do justice to the name of the college.

That's our panel today and we'll start out with Christine Fahlund. I don't think we need to worry about the antitrust notice for meetings that the Society of Actuaries likes; it's in the slide deck. Here is Christine.

CHRISTINE FAHLUND: Thank you, Arnold, it was a real treat to be invited to come to speak with you today. Through Anna Rappaport I've been very much involved with the Society of Actuaries lately and find it very exciting and stimulating, in an area I don't understand very well but hopefully I'll get better at it as I go along.

What I want to talk about today is, first of all, starting with the stark realities that the mass market today is facing. The first one I think is we have three major risks and two of them are the longevity and inflation risks and the other one is the investment risk. And, of course, I represent an investment management firm but interestingly enough what I've tried to do at the firm is to complement the investment management operations and thinking and provide them with more breadth of thinking around the whole financial planning concern that people have.

The first thing is that the mass market doesn't understand any of these three risks right, they don't understand investment risk, they don't understand longevity risk or inflation risk. I think they probably understand inflation risk best, they're in denial when it comes to longevity risk and investment risk they have all wrong, and in part that's because our industry has had it all wrong, the way we've represented investment risk.

I was listening the other day to one of my colleagues who was giving an internal presentation and he talked about investment risk and it really bothers me when they do that. I would rather we change the conversation to investment volatility. It’s about the sensitivity to volatility, because quite frankly if you don’t have investments that are volatile, you’re not going to get growth in your portfolio. So it’s not a risk to have investments. This risk is volatility and the only real problem with volatility is the short-term volatility so that risk is more about being squeamish than it is anything else. And yet it’s been built up into something that makes it the most important risk of all and just like the performance of your funds, the performance of your investments is the most important priority for you to be successful in retirement and everybody here at this conference has said the same thing. That’s not true. If you haven’t saved any money, you can have the perfect asset allocation and you’re not going to retire successfully, so that’s one of the big problems we have is that everything is sort of backwards.

Secondly is the 401(k) experience that we’ve had at T. Rowe Price. I talk to the folks who administer the plans all the time and I look at the data anecdotally, I would say, not statistically, but what have we found? We’ve found that after years and years of going out with our

representatives from T. Rowe Price to talk to groups of employees from our 401(k) plans that they sit there with glassy eyes. It doesn't matter how entertaining the presentation may be, they walk out the door and they haven't really learned a thing. We've done great slide presentation, but it's as if you took me to Jiffy Lube and tried to explain to me what is under the hood of my car. I don't know and I don't care, so you could explain it beautifully but I walk out of the room and say fix it.

What has happened in our industry? Well, we've gone to financial behavior, behavioral finance. We realize that that's the secret to so much of what we do as financial planners, as investment advisers, is you can lead a horse to water, but you can't make it drink, so we had to do something about the drinking problem and we turned to Shlomo Benartzi and other experts like Richard Thaler in the behavioral finance world to figure out what to do to get our 401(k) plan participants to take this seriously. What we ended up with, as many of you have heard often now, the auto services where you have auto enrollment, you have a default investment for your 401(k) plan, you have auto increase, which is probably the most important of all. So what are we doing there? We're playing on the inertia of the mass market. They're not going to do anything about saving, they can't do it this year, maybe they'll do it

next year. What we found out was if you asked somebody to increase their contribution this year, they'll say, no, they can't afford it, but if you ask them to sign a piece of paper to start next year with an increase, they say they can and they will, so very interesting.

Third, the pensions are going. We're going to hear a lot more about that and in our industry, at T. Rowe Price, we don't offer annuities, we believe in them but we don't offer them.

OK, so we've all come up with mutual fund ideas, including retirement data funds, which we'll talk more about. And finally we don't have enough planners out there to cover all the mass market. We have a huge shortage of good financial planners with planning backgrounds and we have thousands of people that need the help and so that's been a big part of what I've been doing at T. Rowe Price is trying to figure out what we can do in the way of guidelines and ideas to help 80 percent of the market place.

We start with our retirement income web tools. We're on our second and third versions of those web tools. We were one of the first to start with this back 15 years ago and we worked with an engineer named Lynn Hopewell who has now passed away but some of you may have known him. He was a brilliant man who ran a financial planning firm of the

highest caliber in Washington, D.C., and he said you're missing the boat, you need to use stochastic analysis. You don't have Monte Carlo here. How are you going to help people if you use an assumption of 8 percent a year or 7 percent every single year? You know that isn't the way it works.

We basically worked with him to start to incorporate this into our thinking and we used it to validate the 4 percent guideline, which was already out there, that William Bengen in California had first come up with and he had not used Monte Carlo but we have been strong believers now in the Monte Carlo approach and use it in all of our tools and as often as we can in our basic analyses.

The 4 percent rule, there's been a lot of talk about it lately and I'm not here to defend the rule with the numbers, although we do have that data at T. Rowe Price. There are ways to think about that, but the most important thing here is that we have a guideline, so remember this. We've got 80 percent of the market out there that's probably never going to get a financial planner. They don't want to listen to education, but maybe they will listen to something that sticks, one number, right? So even if they started to change the number from 4 to 4.23, we would rather stay with 4, because we think people will get it and if we repeat it often enough, people will start to realize,

wow, yesterday I was a millionaire and today I'm living on $40,000. If you look at the balances in our 401(k) plans, they are pathetically low. We have people approaching retirement with $250,000 saved.

We believe you should review this annually with one of our tools and this is our version that's out on our website right now that is available to everybody and it is free. What we worked on with this particular tool was to give the investor the option of either accumulation strategy, transition strategy or starting retirement. And what you see is we've included a lot of variables, a lot of white space, a lot of complexity under the hood, trying to get people to understand the consequences. Instead of talking about inflation and the worries about it, instead of talking about longevity and the worries, we want them to engage with interactive tools to get it a different way, just like I'd rather get it about a car in a different way than to have you tell me what's under the hood.

In this particular illustration you see, ultimately, you come up with you don't have enough money saved and one of the things at the bottom of the page there is click here and we'll tell you more about saving more.

Monte Carlo assumptions, this is the unintended consequences we've been hearing about in everybody's presentations. DOL [Department of Labor], FINRA [Financial

Industry Regulatory Authority Inc.], FINRA actually in this case says you have to have this disclosure because Monte Carlo, the implication is it’s dangerous and people won’t understand it, and so I have two slides to show you in fine print. Now, do you think anybody is going to read those? And yet we don’t have anything on our disclosure requirements if I say an average 7 percent return. It’s mindboggling. If we put an article in our magazine and it has Monte Carlo in it, we have to reserve an extra page in our magazine for the disclosure because it takes so much room.

Our second tool of the retirement income is FuturePath and it’s doing the same kind of thing, more sophisticated, and you have to have assets at T. Rowe Price. Right now we’re working to make it accessible to everyone.

This is our most recent tool, Social Security Benefits Evaluator. We decided that we were missing the boat, we’re just looking at investments and how to maximize your income and more savings. People have already been saving with their FICA taxes, now they need to leverage and maximize the amount they can get out of the system.

With this tool, what we’ve done is we do show you how much total you could get with a given strategy, but unlike other tools, what we have done is to emphasize not the maximum amount you can get out, but instead what are your

goals for this money? You’ve got Social Security money that’s going to be coming in. What are your goals for it? And that’s our second screen on our tool, and people say goals, I never even thought about a goal for Social Security and that’s the point, get people thinking about all of this differently. Then they can select a goal, it will come up with a very sophisticated, complex, robust strategy. This is the cash flow showing exactly when you receive how much money with this particular strategy and we’re trying to get people to talk to each other, couples, husbands and wives before they ever get into this.

The other thing that we did with this tool that’s different from many of the others out there in Social Security is we wanted to emphasize the fact that when one dies, their Social Security benefit can be cut in half, because you’re going to get the larger of the two benefits from the survivor. So we’re trying to introduce again lots of concepts, not necessarily the detail, the minutia that a normal adviser would give you, then you can go sit down with an adviser and get the real technical information you need for your situation.

We ended up with an award by the way for that tool. We’re going to be receiving it shortly from the Marketing Association. This particular one just won an award from the Maryland Association of Marketers. When we went out and

talked to advisers about educating on Social Security, they said, well, that’s fine, but we can’t even get over the hurdle here of having a conversation, they just shut us down. So that’s why we start with helping advisers here who are going to talk about Social Security, who are going to use our tool, how to overcome the objections that people have in the first place and we end up with lots of comparisons of befores and afters. Once you can get the client to listen and talk with you, the numbers tell the story. You can have a lot of different strategies and many, many, many of them come up with $1 million or more over your lifetime and these are current dollars, not inflated dollars.

Let me just quickly finish up here. Practice retirement is another concept. What we’ve said here is bring good news to people, not the bad news. They don’t want to hear about how they have to work longer. Why don’t you start talking instead about how you can start playing in your 60s while you keep working? Let’s focus them on positives instead of negatives.

Here you can see an example of where you work and retire and you end up with the orange line where you actually have just about as much income as if you had worked just straight through and saved through your 60s. Compare that to what most Americans are doing today, which

is the green line. They are retiring precipitously at 62 without knowing what they're doing, why they're doing it and they have guaranteed themselves a life of withdrawals and Social Security that's half of what these others are going to get.

We have a playbook, again generating and encouraging conversations. There's no silver bullet product. I would say to you that probably the one that comes closest, since we've lost our pensions, would be a fixed annuity. We're going to be talking more about DOL complications and unintended consequences in a minute.

T. Rowe Price offers target dated funds. At the beginning, I thought these were ridiculous. I didn't understand why we were designing them and now I think they're the best things since sliced bread. If I don't have to understand what equities are, I'll be a lot happier person right. Most of us don't want to sit in a room and learn about equities equals stock and so forth, so this provides you with a one-and-done solution where you have active, micromanagement day-to-day tactical reallocations and so forth and it's all done for you.

Payout funds, they haven't been that successful yet but there are a number of companies out there that are offering them. Unfortunately, Vanguard, for example, started offering their payout funds in 2008 and what

happened? The market dropped, they ended up having to increase principle to pay out to the people. Folks didn't understand that, they thought they were guaranteed. Lots of issues have come up with these, so I think the most important comment I can make about payout funds is they, everybody, like T. Rowe Price, is working on coming up with one that they think will work very, very well with people, but they are complicated and you can be blind sided as an investor.

So annuities, I talked to you a little bit about that, we'll hear a lot more from other people and you can see here, we have quite a few places on our website that you can go to look at these tools. Here we go, Rob.

ROBERT PAINTER: Thank you, Chris, and thanks for having me here today. My name is Robert Painter, I work at Deutsche Bank. My group focuses solely on retirement and annuity products and hedging and really the group runs the gamut of products from normal funds, targeted funds, all the way up to reinsurance of variable annuities, so the full spectrum of products that might sit in the international retirement market. I'm here today to talk about a crisis that the private market is currently under. OK, defined benefit plans we all know are going away and there really is no solution out there for that legacy structure, and even though there have been some attempts by the Department of

Labor and the politicos to start bridging that gap, time is ticking, people are aging and there’s no solution out there, current solution that’s viable to really get the current cohort of retirees to where they need to be in time to be successful.

So let me recap DB and defined contribution a little bit. We’ll talk a little bit about the products and the benefits and features of those products. Most importantly, I want to talk about the weaknesses of the current defined contribution system, which might lead to some discussion.

Let’s go on to DB. There we go. OK, so very quickly recapping, on the left side of the page, that’s where we were, we were at a full DB plan, your employer was not behind, setting aside money for your behalf, in the amount of your income and you really didn’t have to worry about it. As we know, those are going away, I’ll show you some statistics in a minute, but let me take a little straw poll here. Who in the audience at one time had some DB plan participation? Seventy percent, 80 percent. OK, whose company right now has a DB plan in place? Man, you guys are right on the stats. OK, here we go.

So I’m going to go from the bottom up here. The bottom graph, the dark blue bars are the percentage of participation of companies solely in DB, the yellow is percentage of companies solely in DC and you can see it

moving 70 to 20 for DB and 10 to 70 for DC over the last 11 years, which is pretty much right on what the audience had here.

Let me ask a third question. Who would like to have their DB plan back? Five principles of defined benefit which are key for any person looking to retire, longevity protection and, Chris, hit on it a bit, I come from an asset management firm, we have target dated funds, mutual funds, those are nice investment products, they don’t sell the entire equation. I would say, like Chris said, investment risk is No. 1. I think longevity protection is the most important risk, or most important factor for a retiree.

Secondly, income and capital protection. So in terms of a guarantee on that income, target dated funds and mutual funds work until they don’t work. Some of the target dated funds on my platform worked well until they didn’t work, because they didn’t have guarantees associated with them and you can’t rely on a nonguaranteed strategy over a long-term time horizon to get you where you need to be 30 years from now.

Thirdly and equally as important, automatically sized to lifestyles. What does that mean? That’s kind of an odd thing to say. With defined benefit, the benefit is tied to your income, so, you know, it roughly is scaled to the

notional of your lifestyle to that time period. Chris talked about the education process, when am I going to save and how am I going to step that up, I’ll put it off until later. That’s generally what’s going on. DC plans are woefully underfunded to what the DB equivalent would be. I’ll talk about some solutions at the end we see in the international market, which unfortunately or fortunately have, you know, government consequences involved and mandates.

Individualization. How can I customize my retirement stream or retirement guarantees? Going back to my mutual fund example of the target dates, mutual funds that we have on our platform, they’re not individualized. They are bucketed so you know you might have some type of target that you’re moving to, but they’re not going to get you to exactly what you need in an easy-to-understand mechanism that you don’t have to constantly monitor.

I’m going to use these five principles as sort of the gold standard for evaluating products and I think these need to be in any final solution that is in the private market. OK, so that’s my thesis here.

My second bias here is I think variable annuities and annuities within the DC context are the closest thing you can get to getting to that utopia of meeting those five criteria and we’ll talk about some of the investments right

here that make up DC plans.

So, right here, 2012 mix of defined contribution assets, 401(k)s, which is a large piece; mutual funds, the lion's share; separate accounts; trusts; insurance at 12 percent. Of that, the annuity piece is less than 10 percent. That's a very small number when you're talking about the guaranteed or unguaranteed proportion of those liabilities, so no capital guarantee, no longevity guarantee. It's just a roll of the dice and that's really the story of DC right now. Even though there is education in place, even though there is an increasing sophistication in fund management, it's not the individualized protection that people really need that you might see through Social Security or defined benefit plans that's going to really get them to where they need to go. And they're not going to be sad 20 years from now, they'll be sad 40 years from now when they're 90 and out of money.

Let me talk very high level about the realm of retirement products and we've put it into five different groupings here and we've overlaid some of those five key features I talked about, protection, both for longevity and capital, individualization, cost efficiency. So moving from normal static mutual funds, which was, I'd say, 10 years ago the state of DC plans, there is marginal innovation made through target dated funds, which is a smarter asset

allocation version of the mutual fund. Take some of the investment decisions and, like my friend in the back row, some of the investment decisions out of the hands of individuals, which is good or bad but probably for the masses is a good thing. But then we go, and these are all nonguaranteed products, we go across the spectrum to a CPPI [constant proportion portfolio insurance]product, which is more of a dynamic fund allocation with or without guarantees to the annuity realm where we're getting solid defined benefit guarantees. We need to get to the right-hand side of this equation to be successful.

Right now, we've stopped at No. 2. And you know you can agree or disagree with me, I think No. 2 is woefully inadequate as a long-term solution, even though my firm sells these types of offerings.

As important at the bottom, these are just products, there's no systematic way to assist people to know the size of how much should I save, should I be forced to save, should my employer encourage me to save and/or should my employer just kick in automatically as good will to get me to where I need to be, in terms of a savings rate, by either lowering wages and automatically contributing or mandating something legislatively.

Let's get into the weaknesses. I'm going to go through three very high level weaknesses, the first two I think are

the key items for DC plans. Lack of meaningful innovation. So the innovation we saw for moving from mutual funds and target dated funds was precipitated by a change in legislation. Pension Protection Act essentially gave, and I’ll talk about the impetus here, the impetus for plan sponsors to move to that next level of the product. If you think about a plan sponsor, it’s a corporation, they’re not pension experts, they’re doing this basically out of their good will. There’s no incentive for them to innovate, there’s no profit motive for them to innovate, there’s a lot of fear for them to get things wrong, a lot of fear and so you would see that all plan sponsors, private corporations, with a few exceptions, a few innovative exceptions, move as a herd. They’ll move in likeminded nature and they’ll only move as far as they have to. The biggest hurdles for them, the second bullet is ERISA [Employee Retirement Income Security Act]. ERISA is highly punitive, highly difficult to maneuver and the implications for them getting it wrong could lead to mass lawsuits, which for a business is not core, not revenue generating. It’s just a benefit they’re providing. So there's really no incentive, from a private pension plan to innovate.

The innovation we made from mutual funds to target date was essentially the Department of Labor saying we will give you legal protection against lawsuits if you move to

more of a target date balanced approach. So it was not an incentive; it was a reduction of disincentive, if that makes sense.

I would purport that in order to get a broader set of guaranteed products into the defined contribution space, it’s not going to happen organically, it’s going to have to happen through an expansion of the Pension Protection Act, saying we encourage you to make this next step because we think it’s a good thing from a social perspective and we’ll do that by heavily limiting the liability you will have for putting those products in your portfolio. That’s the weakness, that’s the solution I’m proposing. You know, we’ll see. There is a mechanism and again we’re talking about putting annuities in DC plans, there is a mechanism for having annuities in 401(k)s, 403(b)s. You have to go through a series of rollovers into IRAs and reallocations; most people aren’t able to maneuver that system efficiently, there are too many steps, too complex. There needs to be a direct here’s my automatic payment, it’s going to an annuity, boom, forget it and go, just as you would see in Social Security or etc.

Second weakness is just the investors themselves and Chris touched on this. I’ll go on this very quickly. The quotes are great, I love these quotes. Essentially the FCC, through the Dodd-Frank-requested study. Not surprisingly

financial literacy is very low from that study. Other studies of actual Americans rating themselves on financial literacy, they feel it's very high, so it's a two-pronged problem. One, people don't know things but more importantly and with greater fear they think they know things, which is an even worse situation to be in.

The second set of misunderstandings, life span, living longer. No one really knows this right now, the insurers, reinsurers can't handle this risk, you know. We, my group, arranges reinsurance longevity transactions. Reinsurers are fearful of that extreme tail. If a large corporation is fearful of that tail, why shouldn't you, you and you be fearful of that tail on an individual basis? And then, you know, people just gloss over when that subject comes up, for obvious reasons. It's a scary, scary discussion. There needs to be some protection and this goes to that first tenet I spoke about, there needs to be longevity protection, easily accessible within DC plans.

Quickly here, thirdly, system misalignment and misincentives, these are working themselves out over time. Within the annuity space, there have been large misincentives between distributors and their customers through fees, the structure of fees, large commissions up front, no trail. Over time, the industry is self-correcting that and aligning incentives, but essentially we're missing

an opportunity here where the point of sale should be the point of education. The way the fee structures are set up, the point of sale is the last time you'll see that individual.

Let me talk to you one more minute here and I'd like to talk about Australia and some of the aspects of their system. It's not a perfect system. The superannuation system, essentially it mandates and encourages savings, requirement of a certain portion of wages paid by the employer go into externally managed trusts. You can freely choose between the trusts that you enter into; they look like mini pension plans. The rate is currently 9-10 percent; it will be 12 percent of all income that will be saved, set aside for retirement in Australia annually and you can't access those funds until age 60. So if you think about a 401(k) contribution minimums, you're talking 3-4 percent. Australia thinks it's 12 percent to get to where people need to go, in terms of the savings rate.

Lots of the same concepts, you know, contact me if you want to know more about this. Another innovation they made is essentially aligning incentives. There's no such thing as an upfront fee. In order for advisers to get paid fees, they have to have contact with the client every two years. They won't get paid a fee unless they have a meaningful contact with that client, so it turns a selling model into

an advisory model, just by nature of the limitations and the fee constructs.

With that I'm going to jump ahead. I have some other information on VAs [variable annuities], which is my lifeblood but Joe is going to cover that. Just to summarize up here, key points. Improved investor education, it’s very difficult. Alignment of incentives, those are moving in the right direction, those need to be moved more quickly in that direction, but I think the most important would be to allow annuities into the DC context and it’s really going to come through a push/pull of government and corporations working together.

At the bottom, I’d say, a more controversial item, the mandated retirement mode of savings, so similar to the supers, as a legislative act that forced companies to set aside money on their employees’ behalf. We can talk about free markets and choice but you know it’s led to the third largest pension savings pool of money, Australia that is, in the world for a relatively small country. That being said, I’ll pass it over to Joe. (APPLAUSE)

JOSEPH MONTMINY: Thank you very much, Rob, and yes, thank you very much again for having me come today. I greatly appreciate this. Just a quick short story. You know, a really close friend of mind, he’s in his mid-50s, he was asked to go run the insurance business for an insurance

company in Japan. So four years ago, he actually moved his family to Japan to actually run this company. Well, unfortunately, this summer he was actually forced to retire for health reasons. Now, fortunately for him, he saved pretty aggressively for retirement so he's living a fairly comfortable retirement but not everybody is that lucky. Our studies of retirees show that half of the retirees stopped working before they planned to and most of them for reasons that they didn't plan. One out of six stopped working for health reasons, similar to my friend. Well, annuities are one of the few retirement products that can provide you with the ability to not only save or accumulate assets for retirement but also get guaranteed lifetime income if you want that longevity protection. Chris and Rob talked to you today about the institutional or group business. I'm going to be talking to you about the individual market place and talk a little bit about what's driving some of that market, what's happening, what's the size of it, to give you some context, because Arnold said, you know what, they may not understand a lot of how big that market is.

On this first slide here, I'm sharing with you some of the annuity sales trends. Variable annuity sales are on top. Even though the market has gone up, VA sales have not. They didn't follow the market and that's because you have a lot of large VA companies that are very carefully managing

their book of business and their exposure and a lot of that is because of the guaranteed living benefit [GLB] riders. Contrary to what you may hear, those riders are still a big driver of sales. Companies are just trying to manage how much exposure they have there.

For 2013, I think you're going to see sales down a little bit, only down probably 2 or 3 percent compared to 2012. In 2014, we're forecasting that the VA sales are going to start to improve a little bit—in the low single digits but this market is going to start to turn around, while fixed annuities, which are on the bottom of this slide, they've struggled because they are linked to the interest rates and the low interest rates have hurt them. However, over the last couple of quarters, interest rates have started to rise a little bit and you're starting to see a little bit of a turnaround here. It's helpful to understand well what's driving this because there are two components of fixed annuities. You've got those that are accumulating or saving assets, deferred annuities, and then you've got the payout side or the income annuities.

This slide here shows you the deferred side and there are three components: indexed, book value and market value adjusted. Book value and market value adjusted are on the top two rows. Those are the ones that have a very direct link to an interest rate market. These sales have jumped up

the second half of this year due to increasing interest rates and a more positively shaped yield curve. The longer-term rates have really gone up more than the short-term rates. The 10-year treasury rate was at 1.5 percent a year and a half ago. Yesterday or the day before they had increased to around 3 percent. A more positively shaped yield curve really bodes well for the more traditional fixed rate products that invest in some of those intermediate-term investments. Index annuities, which you see on the bottom here, are at record levels. There are a few things that are driving that: Many of them have these guaranteed lifetime withdrawal benefit [GLWB] riders on them, which gives the owner the ability to get income when they want it. We’re seeing that with the rising interest rates, the caps on those products that are coming up. All of a sudden, some of that money that was focused on the accumulation story is starting to go back into those products as well, allowing them to hit record levels, $10 billion, for the first time, in the third quarter. Overall, for all fixed deferred products, that’s a four-year high that we’re at. I think you’re going to see when we get the 2013 results, it’s probably going to be up 10 to 15 percent in 2013, and I’d expect the same kind of growth in 2014.

Now, let’s shift over and talk about longevity because I know Arnold would like us to focus on longevity here. I

will talk a little bit about what’s going on there and just how are those products doing. Well, you’ve got immediate annuity sales and you’ve got deferred income annuity sales, which you’re starting to hear some folks talk about. Together they’re going to have a record year in 2013. The fixed immediate annuity sales, which are on the bottom in gold, will probably be pretty much where you were last year in terms of sales, which, given the low interest rate, isn’t that bad, while the deferred income market has just started to take off in 2012. You only had about five companies in the market then. In 2013, five more companies came into the market and deferred income sales doubled. We’re forecasting around $2 billion in 2013. I think you’re going to see another five companies come into the market in the first half of 2014. With the interest rate improving, I actually think not only are the sales going to have a record year in 2013, about $10 billion, I’m actually forecasting that that income annuity market is going to double by 2017 to around $20 billion because of the attractiveness of those products.

Now I talked a little bit about how those guaranteed riders are driving sales. Well, here’s a little data to support that. Here on the left-hand side you have the VA sales, and this is through the first three quarters of 2013. If you look at the circle, you can see 88 percent of

all new VA sales had one of these GLBs available. When it was available, 82 percent of the time it's being elected. So although they're managing the sales, it's still a large percentage of what they're selling. While over on the index side, I think Rob talked a little bit about how that is a part of what they're selling, well, here you can see eight out of 10 new index sales has one of these riders available and when it's available, three-quarters of the time it's being elected. So that's continuing to help drive those sales.

As you look at these income riders, you need to know whether it's a GLB or immediate annuity. There are different types of buyers who are looking for these products depending upon their income needs. The blue line is the buyers of a VA GLWB and we found that whether it's a GMIB or the indexed GLWB or even a deferred income annuity, they tend to follow that same blue line. They want people buying it today that aren't going to need the income for five or 10 years when they enter retirement, but they're just planning for that, which is very different than the yellow line or gold line, which are immediate annuity buyers, people looking for income today.

What's really interesting when we talk to folks that are looking at these markets is we find that one group of buyers doesn't cannibalize the other. For those immediate

annuity buyers, the average age is around 73, six out of 10 are using qualified or after-tax money to make that purchase. They're looking for income now since they're close to retirement. That's different than somebody who follows that blue line, who needs income at a later point in time, often buying them in their late 50s or early 60s. You can see the peak there. The majority of the money making those purchases are pre-tax or qualified money, and these folks are individuals who want money at a later point in time. We often get asked when do they start taking out the income, in terms of using these, and that's why I threw this slide in. These owners tend to take withdrawals out through three phases, depending upon their age and the source of money they use. Did they use qualified money or did they use nonqualified? Because for folks under 60, very few are taking withdrawals, which you'd expect because it's really intended to be more for retirement. From ages 60-69, you see it increase from around 10 to 25 percent but where the real jump is, is at age 70.5 and that's when all of a sudden the IRS has required minimum distributions, so even though they follow a very similar trend line up to then, when that IRS requirement kicks in, you see the withdrawal rate jump up to around 60 percent of those qualified accounts start taking out withdrawals. It then slowly increases to around 80-85 percent at age 80. This is very

different than the qualified money, which is the green line. It follows a slow steady increase to around 50 percent at age 85 and that's because they don't have those same IRS requirements.

We also find that it's really helpful to understand when they're buying these annuity products what are their attitudes, preferences and what are they looking for. If you look at the top line here, the top reason that they are buying an annuity product is that basically they're looking to receive some form of supplemental Social Security income or pension income to supplement their income. You've got an income gap between their income and expenses that they want to make sure if they need it, they can cover that and this helps them to at least cover their basic living expenses.

In the middle, you see satisfaction levels here. Three-quarters of them or more are satisfied with their purchase and probably just as importantly, at the very bottom, five out of six said they would be willing to recommend this annuity to a friend or family member. As many of you know, it takes a lot to recommend something to a family member when it comes to an insurance type of product, but this is what they're telling us.

Interestingly as you look at what they're buying with these income annuity products, they put a real high priority on principal protection. What I'm showing you here

are those individuals that bought an income annuity or a payout annuity and it had a lifetime feature. Along the horizontal axis, you have the different type of features they had available and on the vertical axis, it shows you their corresponding monthly payment that came along with that. As you can see, most of them are buying products with features that are right in the middle where they have a life annuity where they at least are going to get guaranteed payments between 10 and 20 years.

Now you only have about 12 percent that are way on the left saying I just want that pure life annuity with the highest payout. You have an even lower percentage on the far right that want the cost of living increase or the CPI. This is where inflation can help them but they're basically saying I don't want to give up some of that income today so that my payments can increase with inflation and so they're not electing those features.

Now this is a really important slide because in order to connect with a consumer, you've got to make sure that they're all talking the same language. We find that when you ask a retiree what their top or most important retirement risks are, they're very short-term focused. What are the public policy issues? Are they going to cut my Medicare or cut Social Security? Are they going to increase taxes? What about inflation? They are concerned about

what’s going to impact them today. Advisers are thinking more about long-term issues and their added value, issues like health care (How is that going to impact their life in retirement?), longevity (Will their assets last a lifetime?). If the retiree is thinking short term and the adviser is thinking long term, then they’re not connecting and it’s going to be really hard to get that retiree to understand how they need to get over that short-term hurdle to address the long-term issues if they’re so focused short term. It’s really critical that the advisers address those short-term issues to even get to that long-term conversation.

Another thing that Arnold and Chris and a few other folks have talked about is how do you get consumers to buy longevity products? Well, first of all, they need to understand what it is they’re talking about. We’ve asked them to self-report what kind of financial literacy do they have. Half of those that are close to or are in retirement said they have very little or no financial literacy. Even worse, we asked how familiar are you with an annuity product, and 60 percent of the retirees or pre-retirees said I’m not that familiar with an annuity product. I’m not saying they need to buy an annuity, but for one of the few products that can help provide them with some kind of guaranteed lifetime income protection, they at least need

to be familiar with it. This is a huge, huge challenge where the government, public sector, private sector, including insurance companies, need to find ways to better educate the consumers and even some of the advisers on some of those retirement options because we have seen that advisers really do make a difference.

If you look at some of this data on the left-hand side, whether it's looking at income, assets, different types of analysis on planning for retirement, advisers are shown to make a difference. If you look at the far right-hand side, one in four consumers who does not have an adviser said that they're really not doing any of these retirement planning analyses. We did a separate study and found that only 28 percent of those consumers without an adviser feel they're very prepared for retirement, but when you talk to those consumers who are very engaged with an adviser, they're two or three times more likely to say I feel confident that I am prepared for retirement.

I'm going to wrap up by saying that even though there are a number of issues out there, we do feel that there is a large opportunity for guaranteed lifetime income products. We estimate that the market potential is as high as $650 billion. The way we came up with this is if you look at the numbers on the bottom, we asked consumers how many of you would be willing to convert some of your assets

to get guaranteed lifetime income. One in five retirees was interested while 40 percent of pre-retirees said that they would be interested because they know they may not have a DB, they have concerns about Social Security, so they need to be more responsible. When you combine that data with the financial asset data from the Federal Reserve, for pre-retirees, the top circles here, people that are planning for income at a later point in time could have a market as high as $474 billion. This is based just on those that said I'm interested and I have the assets. For retirees looking for income now, that market is as high as $170 billion. I've tried to break it down for you by the different age groups. As more and more people put money into these DC plans, like those that Rob was talking about, and into IRAs and realize they need to be more accountable, this market is going to become even larger down the road. With that, I am going to turn it over to Harrison Weaver from Oliver. Thank you.

HARRISON WEAVER: Thank you. Good morning, everyone. My name is Harrison Weaver, I'm a consultant at the U.S. Life Practice of Oliver Wyman. I'm here today to represent the little guy, the life insurance company, and I'm going to be talking about longevity insurance because when we see longevity risk, naturally, as insurers we want to insure it. Joe mentioned deferred income annuities and the line

between these two products is very blurred. In fact, if you were to file a contract under the compact, the standards are exactly the same, there are just a few paragraphs that are different, so that's what I'm going to be talking about today and I'm going to do that in three steps. First, longevity insurance. Deferred income annuities are still fairly rare, the market is not fully saturated yet so a lot of people don't know what they are, so I'm going to spend a little time going over what the product features are, what the different structures can be. Second, I'll talk about how you can use these products to meet your retirement needs particular with income in your retirement and finally I'm going to look at some of the barriers to sales, some of the things that are preventing this product from maybe getting the sales that a lot of companies would like to see.

I'd like to start talking about what longevity insurance is by comparing it to a product that almost everyone should be familiar with, which is a SPIA, or a single premium immediate annuity, or payout annuity, whatever you want to call it.

I've graphed the cash flows here for a SPIA on the left and longevity insurance on the right. Now, as actuaries, unlike a lot of the presentations you've heard at the conference, I have no idea when any one person is

going to die and frankly I don't really care. I'm concerned about the expectation for the benefits that we're going to have to pay, the average for how long people are going to live, and that's what these cash flows here represent. On the left for a SPIA, you pay in your premium and within 13 months typically you have to start taking payouts and you can see how those decline over time as people age and as they die.

For a longevity insurance contract, the big difference here is the deferral period. In this case, I've illustrated one with a 20-year deferral period and that's fairly typical, the way that these are marketed for a 65-year-old male, because their life expectation is about 20 years. This is truly insuring the tail risk of someone living beyond age 85. What does that do? Well, you can see by the relative magnitude here that it's going to increase your payouts by quite a lot because you've got a 20-year period of discounting with both interest and mortality. At the top, I've shown what the expected payout is here, $7,000 about for an immediate annuity, compared to almost $54,000 for a longevity insurance contract, which is a big difference. You can also see from the graphs here, the scales that we're only expecting to payout around $33,000 when those payouts begin and that's representative of about 40 percent of people not making it to the end of that

deferral period, which is about what you'd expect with a 20-year deferral and the life expectancy the way that it is.

Now the key point about longevity insurance here is during that 20-year deferral period, you have no access to your money and there is no death benefit, so you can't take any withdrawals. If you die, you get nothing, there is no return of premium, there are no benefits to your beneficiaries and that's, as you might imagine, a big sticking point for a lot of people. They see this and they're kind of worried about that, as you would expect, and I'm going to talk a little bit about that later.

This is what I refer to, in the article I wrote, as pure longevity insurance, it's what most actuaries would consider to be longevity insurance but when you look at the sales of deferred income annuities and longevity insurance, that category, it's not really what's being sold. The majority of sales look a little bit more like this. This is what I call a pension replacement vehicle. You can see it's typically bought by someone around age 60, somebody who is approaching retirement, they want to buy this and defer it for about seven years, get a little bit of a boost on their income in retirement and you can see the slide I showed previously was about a $7,000 payout, this one is $9,000, so about a 30 percent increase by deferring that payout for

seven years.

The other thing you'll notice here is the presence of a death benefit during the deferral period and that's going to lower your payouts a little bit but yet it also is important not so much as a marketing item, but as a safety net for a lot of people. Usually a return on premium is paid and it's a nice safety net because people realize that they're going to get their money back and it takes away some of the concerns they had about paying a lot of money into a contract without getting anything back. This is what's typically being sold today, something that looks a little bit more like this in the previous slide.

I have two models for how these products can be used in retirement that I'd like to go over. The first one uses the pure longevity insurance contract that we talked about and it's more for someone who has accumulated a pretty large pool of assets at the time they retire. In this example, if you were to get to the retirement age of 65 with $1 million, you can take 10 percent of that, which is what I showed in the first slide, $100,000, and purchase a longevity annuity contract that starts paying out around age 85, and when that happens, that starts paying you $50,000 per year, which is enough for most people to live off of, especially if you don't have a mortgage anymore at that age. It gives them a very definitive timeframe for how

long their other assets have to last. You know that you've got $900,000 left over in this example, you know it has to last you 20 years and then you're taken care of by this contract that you've purchased. It's taking care of the tail risk of living too long.

This is how you take the rest of your money, you can use that and say, well, maybe the 4 percent rule doesn't really apply anymore, maybe I can buy this boat, maybe I can take these vacations. You have a lot more certainty around how long your money has to last, which takes out some of the problems with retirement planning, one of which is figuring out how long you're going to live, which is a very difficult thing to do.

This is one model. The second one that I want to spend a little bit more time on is income planning, is what I call it. Now I think that one of the big issues with a lot of planning for retirement, there's the big emphasis on accumulation versus decumulation. I think we've all seen these commercials where people walk around with numbers over their heads, that's how much money you need to retire, I need to get to $2 million, and I think that does a couple of things. First, I think it's very intimidating for a lot of people, they see numbers over people's heads around $5 million, $2 million, they don't have a prayer of getting close to that. We heard Christine talk about some people

retire with $250,000. That's just enough, it's just not enough to get to that number. And the other thing I think it does is if you do get to that number, what do you do next? There's a big question about that, because a lot of people, I think, if you look at what lottery winners do, if you give someone a large chunk of money when they've never had large amounts of money before, they go crazy, they don't know how to responsibly spend that money down, so it's a big problem.

What this model does is you can take some amount of money on each paycheck, you put it into a longevity insurance contract and the way longevity insurance works, most contracts are flexible premium and each premium that you put into the contract buys some amount of income in the future. So if I put $1,000 in today, maybe that buys me $20 per month when I retire, so each time you make a contribution, you can see that income accumulating. And, you know, when you're trying to plan, most people can tell you how much money they need per month, because that's what they're living with now, they know what their bills are monthly, they know if I can get to $3,000 per month, I'll be OK. As you contribute to this longevity insurance contract, you can see that amount building up and you know that if you get to age 60 and you're at $4,000 per month, you're in good shape. If you get to age 40 and you're at

$500 per month, well, then you’re pretty far behind. It’s, I think, a lot more concrete way for people to measure how they’re approaching their retirement and then maybe if they need to contribute more or work a little bit longer.

Going back to something that Rob mentioned, I think this is the holy grail for a lot of insurers and a lot of people who like longevity insurance. If you can get a product like this and a model like this into a 401(k) plan, I think this would really take off. And then just from a controversial standpoint here, just to raise some thoughts in your mind, what if this was the default option and the required option? I think it’s very easy for me to go into my own platform now, put 6 percent in a mutual fund, check a box and it’s done. What if I could do the same thing with this product, go in there, put 10 percent of my paycheck every week or so into this contract and see how that builds over time. I think it will give people a very good income benefit. It basically replaces the pension, that’s why I call it pension replacement, and it gives them a benefit that they understand that they’re used to and it would be very useful. As Rob mentioned, there are still a lot of hurdles for that to happen such as the Pension Protection Act and then getting the administration of this down, particularly because if you do this from a paycheck contribution standpoint, it’s going to be fairly small

contributions each time and that's administratively a very difficult thing to do. But I think that this is the model that would really see this product take off and I think it would provide a lot of benefits to a lot of people if that were to happen.

Finally, I want to talk about some of the other reasons why this product hasn't sold quite as much as some people would like to see. I've broken that down into four categories here, starting with tax implications. Joe mentioned this briefly, the presence of required minimum distributions [RMDs] on the qualified money. If you think about the first slide I showed, if you purchase this product at 65, defer it to age 85, around age 70, you're going to start having to take withdrawals, you're going to have to start distributing that money because it's considered an asset and the IRS is going to make you do that. But you have no cash withdrawals under this product, so how are you going to make that happen? The way the IRS rules work is you calculate RMDs on the individual assets but you can take money out of any one asset, so it is possible to get around that as long as you have enough disclosures and enough planning to make that happen, but for a lot of people, that's a very difficult thing to do. The U.S. Treasury in February 2012 put forward some proposals to get rid of the RMDs on certain qualified

longevity annuity contracts, or QLACs, and there are a few stipulations about what these have to be. You may have heard over the past couple years that our government has been doing other things, or not doing other things, depending on your take on things, so that has not been adopted and there hasn't been a whole lot of discussion around that, but that's what saw a flurry of market entries into this space, because people were gearing up for the possibility that it could happen and I think, as Joe mentioned, a lot of people entering the market place.

The other three categories I have here, I'd like to illustrate with an example of comparing it to a GLWB, which I don't think Joe talked about guaranteed lifetime withdrawal benefits. These are very popular today; you get them on index annuities, variable annuities, even life insurance. You get a lot of press about them, a lot of sales and they're a big driving feature for what products do and the first point I've made here is that these provide exactly the same benefit, guaranteed cash flows for life. In fact, longevity insurance payouts are typically higher because there's a lot more certainty from the insurer's standpoint because you have no withdrawals, you have very little flexibility within the contract, so you can predict when the cash withdrawals will occur much more accurately.

The first point I've made here is about the product

features. For the longevity insurance contract, you have no withdrawals and you get your money out through a series of payouts that continue for your life, and that's not right for a lot of people. For an index annuity, you can have surrender charges, you can get more flexibility to when your payouts start, when you want to take money out of the contract yourself, so for a lot of people it's a better option, if they don't have a lot of assets to dedicate to a specific product like this. The third point here I've made goes back to the psychology. There are a couple of points to make here. The first slide I showed you with no death benefit, that's a very big sticking point for a lot of people. I can sit up here all day and show you the math behind it and show that they're equivalent, the expected values are exactly the same, but people don't think that way, they don't think mathematically, they don't think rationally a lot of times, so they're going to see that and they're going to be risk averse and they're going to say I don't want to lose all this money I've worked my whole lifetime accumulating and get nothing in return.

Whereas with the GLWB, you've got the 10 percent rollup rate that you can advertise, you can put that on posters in a big yellow font, stars and exclamations next to it, because it's a very powerful rate when you look at it and see 10 percent, because you can't get 10 percent

anywhere in the market with any kind of guarantee.

Finally the last point I want to make is about the distribution channels for this. When you sell longevity insurance contracts, you typically get a fairly modest commission to the agent up front and that’s the last one they’re going to get because that amount of money is locked in for a lifetime. If you sell an index annuity, the commission can be twice as large because those are pretty heavily commissioned products. And the other thing is that the agent knows that when the surrender charge period is up, they have the opportunity to roll that product into another one and you get paid again. So if you think about it from an agent’s standpoint, he’s giving the same customer the same benefit under both products, but he’s getting paid twice as much, maybe four times as much, if he can get another commission payment on it. There’s very little incentive for them to choose longevity insurance over a lifetime withdrawal benefit, and even from a suitability standpoint, they provide the same benefits, so it’s hard to argue one over the other. That concludes my remarks and I’ll turn it over to Bill.

WILLIAM SILBERT: A retailer was dismayed when a competitor selling the same type of product opened next door to him, displaying a large sign proclaiming best deals. Not long after that, he was horrified to find yet another competitor

move in next door on the other side of him, its large sign was even more disturbing: Lower prices. After his initial panic and concern that he would be driven out of business, he looked for a way to turn the situation to his marketing advantage. Finally, an idea came to him. The next day he proudly unveiled a new and huge sign over his door which read "main entrance." (LAUGHTER) That's an old story but it still gets a reaction, it's amazing.

I appreciate also being invited to be here today because I'd like to talk a little bit about continuing care retirement communities, perhaps a living and breathing experience, very much tied into all the things that we've heard at this conference. I've been in this field and worked promoting these communities for the past 25 years and my hope is, although there are things here that you may already know, that there might be some ideas that would develop some interest and maybe some further exploration.

I'm not going to spend much time here [on statistics that show that America is aging], I think it's pretty much agreed that America is growing older, so as long as we're all there, I'm going to move onto the next slide. This was very interesting, when asked about the keys to a meaningful and vital life, people rated having family and friends the highest, taking care of their health as the second highest and this was followed by spiritual life. At the same time,

only 36 percent claimed to be very knowledgeable about the things you can do now to prepare for a healthy old age and that's been reinforced here and certainly in other venues. The greatest objection to what I'm about to present to you is "I'm not ready for that yet," that's followed by someone who is now living in the community, who is enjoying the community and the community life and what it has to offer, who will come up and say, "There's only one problem with this place, I should have moved here five years ago." We're all on the same page with delay and denial.

Housing and services are inextricably linked in the maximizing of someone's independence. Here are some housing options that we have, some basic options as we approach later years, those of us that are on the downhill side perhaps in terms of chronology, you can stay put, just live at home. This is an even more attractive option now with the advent of long-term care insurance and there are models out there that are beginning to be developed, I don't know if any of you have heard of the Beacon Hill Village. The Beacon Hill Village is people who live in the Beacon Hill neighborhood of Boston, they love it there in their retirement age, they've come together, they've pooled their assets, they've opened an office, hired a case or care manager and that person responds to their needs as they age in place in Beacon Hill. This village movement has

replicated itself in a number of cities across the country. D.C. has a Capitol Hill Village; out in Chicago where we've done work in the last few years, there's a village out there, Lincoln Park Village, so staying at home can be attractive.

You can downsize to a condominium, downsizing is good, and some folks take that route as perhaps a platform for what they might do in the future. There are active adult communities, these are often based on an equity model where you buy your home and you live in the community. You may have some services available to you, there's probably a clubhouse where you can utilize that for community functions. Rental retirement communities, these do not have entrance fees normally, they're pretty high on the monthly fee range, but there's no big down payment in the beginning and that can be attractive to some.

I think moving in with your kids is a really great option. Enough said there. You can wait and move into assisted living, if you can get into assisted living or you can wait longer and move in directly to a skilled nursing community. These all have plusses and minuses. I think the cobbling together of services in the amount to which you are responsible for arranging services, if you're buying property, either a condo or in an active adult community, you have the issue of resale. Long-term care is perhaps

present but it’s not often a direct link in some of these independent options.

I talked to somebody at Pulte Homes, an executive, a couple years back and we were interested in trying to connect with active adult communities to see if we could provide some services and essentially he said it’s OK if you guys are nearby but we don’t want to have any direct contact, we don’t have any direct links. Those are all issues that one wants to address, or you can move to a continuing care retirement community and that’s where I’ll spend the balance of my remarks.

I’ll tell you a little bit about Kendal. Kendal began in the 1960s, with a gift and a charge. The gift was a $300,000 grant to a group of retirees from the Philadelphia Yearly Meeting of Friends, Quakers. The charge was to go out and find a better way in retirement, so that led to the establishment of Kendal, along with the first Kendal community. It’s a continuing care retirement community and it offers the life care agreement, and I will talk about that in a minute.

Kendal has a very interesting culture. It’s been described as highly collaborative and participatory. Residents who are part of Kendal communities, they are very much involved in both the planning and development of the physical community and Kendal residents who are going to

move in are expected, before the community opens, to begin to organize and develop both the recreational, intellectual and cultural life of the community, that's their responsibility in each place.

We have, as you can see, we're now located in eight states, we have 12 affiliate organizations to Kendal and among those are 15 CCRCs. Our structure is a little different; each of these affiliates are independently owned and operated by their own volunteer boards of directors. All of their assets remain in each of those locations. What holds Kendal together are certain shared powers that we all agree to that we won't do in these areas anything independent of others without first getting their affirmation and approval. We're ninth on the Ziegler 100 list of largest multisenior living organizations.

Continuing care communities have been defined as they offer an innovative and independent lifestyle for older adults and this kind of community is different from other housing and care options because it offers a long-term contract that provides for housing, services and long-term care all in one location. The CCRC continues to meet your needs in a familiar setting as you grow older. The key here is—An aside: I was thinking to myself, I'm sort of facing the trifecta for speakers. It's not only the last day of the conference but I'm the last one to speak, we're in

Florida and the sun is shining and I have a plane to catch, so you guys are in good shape.

The key here is that it has housing and services. It's a continuum of services and it's all in one setting where you get to know and become familiar with not only the provider but the people who are actually providing that care.

The history of continuing care communities, and I will say, people are not familiar that much with retirement options, especially when you talk about retirement communities today and it's still true, most people perceptually, envision this [picture of a 19th century old folks home]. I encourage you to visit a continuing care retirement community that's been built in the last 10 or 15 years if you haven't, just to walk through the halls and look at what people do and what things they offer.

They really grew out of the Civil War and many of these older communities were built to accommodate widows and orphans of the Civil War. They eventually morphed into, the same buildings morphed into places for people who were growing older to retire to. The idea was you divested, you gave over all your assets to the provider and you were able to live in a community.

This is actually the Old People's Home of Chicago, not this particular building, but it started back before the

Chicago fire and it continues today as that high rise, which is called the Admiral at the Lake, one of our more recent affiliates. There are approximately 1,900 CCRCs across the country, 80 percent of these communities are not-for-profit sponsored. About half of the not-for-profit communities are faith based, with faith-based sponsors. The other half are anything from universities to hospital systems to military and a small handful like Kendal have grown out of retirees coming together with the express purpose of establishing a continuing care retirement community.

Kendal’s growth has been by invitation; we haven’t put pins on a map. We continually have people who will approach us who have been to other Kendal communities or know people who live there and they will ask if that experience could be replicated in their area and that’s just how it goes.

Most of the continuing care communities that started out as a single-site provider are now part of a multisystem organization.

Why do people move into these communities? Well, this is based on a longitudinal study, as you can see, that was done about seven years ago and I can tell you from market studies, as recent as this year for some of the areas we’ve looked at, this is pretty much what it is that’s motivating people [knowing they have access to long-term care when

needed]. Now, it’s not necessarily the thing they want to talk about first, and it’s not always the thing that we’ll emphasize first, but at the end of the day, they are really concerned about what happens “if.” Most of the people that we talk to, most of the 5-7 percent that end up moving into a continuing care retirement community, are planners and if they’re not planners, the next best prospect is a person who has been through their own living hell trying to arrange for services for a parent or another loved one who is in crisis.

These other ones, the predictable way to obtain and pay for future needs, I’ll cover that in a moment through the contracts that are offered. The independence is really, they want to be in the driver’s seat making their own decisions and many, many do not want to be a burden to their children or their family. That is a key driver in this and certainly there are the other services that are offered by these communities.

I won’t spend a lot of time here but the choices are bountiful. Location in terms of many of the CCRCs are in suburban areas, but there’s a growing trend toward creating urban CCRCs and we’ve been involved in that one in Chicago and there are other cities, people liking the thought, empty nesters especially, of coming back into the city and being that much closer to a lot of the things the city has

to offer.

Social interaction, I will tell you and I think there was a study done, I think it was in Australia, that looked at. It was a 10-year study that determined that people who had a strong social network and friends and that network was still very much active and alive ended up living about 22 percent longer than people who didn't. Relationships matter and in this idea of community and creating community, you can't underestimate, we often do but you can't underestimate that connection that people have with one another in community. One woman I remember who was very instrumental in helping us market Sherwood Oaks, she and her husband were just dynamite folks, and he suddenly passed away and about two months later, I saw her one day on the sidewalk and I came up and just said how are you doing and she said, you know, I never really understood the benefit of the network of support that I have here. And that was the network of support and people who have been through that experience, who were concerned about that experience, so that can't be underestimated.

I think the devil made me do this [showing a picture of staff removing a lot of snow from the sidewalk; LAUGHTER]. This usually gets a reaction from the crowd when we're speaking in our backyards in the Northeast, the mid-Atlantic and the near Midwest, we get a reaction. The same

kind of reaction but in a more favorable way than when you suggest that they move in with the kids, but there's a lot to be said for the maintenance, low maintenance lifestyle that people experience in these communities.

Dining options today are many; it used to be you had one dining room, and for dinner you wore a jacket and tie. That's not the way they are today. Dining options are many, going from formal dining to informal dining, to private dining and these are all spaces in the community, from bistros to market places where you can go in and purchase grocery items. They provide catering services to people in their homes on the campus and certainly provide for meals when people are under the weather.

Transportation is another biggie, and that is provided by the community. All of these benefits are included in their monthly fees, as well as property taxes and other things.

Here's where I want to spend a little bit of time on, the contract options. I made the comment that this is attractive as a housing option because of this contractual agreement between the resident and the community. There are basically three types of CCRC contracts or agreements. There are permutations on these and they increase more and more every day, but basically the question a consumer wants to ask a provider of this type of experience is how much of

any future long-term care I need, in the form of assisted living, memory support, skilled nursing, how much is already included in the fees I've paid to you versus what I will have to shell out on my own and that's a critical question, because in these three types of contracts, there's a type A, which is the extensive contract; then there's a type B, which is a modified contract; and type C is a fee for service.

Under the type A extensive agreement, you're going to pay more, you're going to pay an entry fee and you're going to pay monthly fees, but all future long-term care that you may need while you're living there, not only are you going to have access to it on a short-term or long-term basis but your fee does not go up, your monthly fee remains the same. It goes up for cost-of-living adjustment, whatever that is, it's a general CPI or whatever you want to call it but your fee will not double or triple when you need to go to those higher levels of care. That's the attractive feature of the extensive agreement. Granted, it's challenging because of costs, I'll show you a little bit about that, but that is where Kendal started, that was the better way and Kendal communities offer the extensive or the life care agreement. The full risk in this model is on the community level where fees are pooled to be able to do that.

In a type B contract, there's going to be a shared

risk, usually the community is going to provide maybe 15 or 30 days a year of skilled nursing, assisted living, memory support, whatever it is. The balance of the year and the balance of your need for those services are on your dime and you will pay the per diem rate for the balance of whatever time you spend in one of those levels of care during that year.

The fee for service contract, lowest cost, there's still an entry fee, but it's a much lower fee than you would pay in a type A community, in that you get all of the benefits of the community, the services, you will have access to long-term care, but from day one if you access assisted living, skilled nursing, memory support, your fee then changes and you bear the per diem rate for that. Live and learn.

Entry fees are determined by the size of the residence and in some cases the location, whether single or double occupancy and the size of the refund desired, if any. Monthly fees are also based upon residence size and whether it's single or double occupancy.

These are some fees; I took this from one of our communities, the Longwood Community, and for the accommodations that we've listed, we've kind of gone from the smallest to the largest and this is for the life care plan, the full extensive plan, you can see the entry fees,

based on the size of the accommodation. If you want a refund plan, we offer, usually there’s a 0 balance plan, which is the traditional plan, which says for every month you live there, 2 percent of your income fee is invested back in the community, so at the end of 50 months, you don’t have a refund, it’s all been invested back into the community. That, of course, is the lowest entry fee to get the life care. Then we you have 50 percent and 90 percent refundable plans, and for a 90 percent refundable plan, a studio apartment is $115,456, of which you’ll get back about $103,000 and then you can see how that cost increases based on the fact that you or your estate will get that refund; it’s guaranteed to you.

FROM THE FLOOR: Are those rated by health or age at all?

WILLIAM SILBERT: In the 90 percent, there is, in some of the communities, they do rate that by age for people who are over the age of 80. That plan, again, considering adverse selection I suppose, sometimes that plan is not offered. The 50 percent would be offered but the 90 percent would not be, depending upon your age, but mostly it’s around 80 or 85, but younger than that that’s still an option.

It requires a health assessment and a financial assessment. Ways that we moderate fees, the community design, we try to build a range of options for people, I

think, 25 percent across the Kendal system are one-bedroom or studio apartments. We use charitable funds people to contribute to funds to help other residents who may run out of assets. By the way, if you run out of assets through no fault of your own, you aren't asked to leave the community.

Then long-term care insurance that we've developed a modified life care plan and this, in turn, if a resident is willing to fund one, three or five years of their long-term care needs because of the existence of a long-term contract, you can see that we start to discount their entrance fee by that amount. Some other ways we do it is through wellness, healthy outcomes and then we have a program called Kendal at Home, which is virtually a life care program that comes into your home. It's been very successful; 215 people have signed up, 70 percent are married. Care management is the key to the success of this community. I can answer any other questions about this going forward. Here are some resources that you can utilize to better understand the communities and, of course, this is for actuaries. This is kind of the bible in the CCRC business. If you want more information about Kendal and our communities and our programs, Kendal.org is where you want to look. So that's it.

ARNOLD DICKE: We did have a discussion question here. I know it's getting to the end of time; of course, the last

session ran over and we were five minutes late so I'm going to keep going for five minutes, but if you feel you need to leave, that's fine. Here's the discussion question I threw up for my panelists here. One of the things I was really concerned about is what are the, and this is sort of along with Rob Brown's question on the last thing, what are the things that are keeping these alternatives that you've heard today from being utilized as widely as perhaps they could be and maybe should be? So I asked what is one thing, not necessarily the most important thing, but one thing that could be done to make it easier for an individual without sufficient institutional pension support, in other words, regular pensions and Social Security that's enough to take care of them, what could be done to help them get a secure retirement? Who has the microphone? You can pass it down to Christine and start that way.

CHRISTINE FAHLUND: Well, it's no surprise that I would suggest that people educate themselves at the most basic level so they understand very basic guidelines like the 4 percent rule. We also have a 15 percent, at least, save at least 15 percent of your salary and also use tools to educate yourself and really get down to the bottom of it.

ROB PAINTER: I think I'll just repeat essentially what I said in my presentation, create a structure, institutional structure that allows individuals to have easier access to

lifetime products, so adjustment of the current systems.

JOSEPH MONTMINY: Yeah, I'd actually probably say there's probably three things: Education is key, which I talked about earlier; the tools to give them the ability to educate and understand their options; and then regulations. I think Rob talked it about in his discussion. Unless you have the regulations and infrastructure there that requires them to contribute, most people aren't going to make the initiative.

HARRISON WEAVER: I foresaw I was running out of time and tried to incorporate mine in our presentation, and I'd just echo the emphasis should be on decumulation and accumulation, to get people really focused on their income in retirement more so than accumulating some pile of money when they do retire.

WILLIAM SILBERT: Agreed and I think that for people to take time, yes, look at the assets, but I think taking time to understand what is meaningful, what is going to be fulfilling for you and it's different for every one of us and depending on assets and so forth, we have to have that conversation with ourselves and then be able to look at what is truly affordable and how can we maximize whatever that experience is.

ARNOLD DICKE: I'm going to throw out just an idea of my own here. If these annuity type vehicles are supposed to be

replacing the defined aspect of pension plans, why is there not some guarantees either supplied by the industry or supplied by government that's comparable to what's supplied for defined benefit pension plans, in other words like the PBGC [Pension Benefit Guaranty Corporation] guarantees? The guarantee funds in most states have something like $100,000 value of the annuity; that's the most they would give you back. As opposed to, it should be based on, in my mind, an income amount comparable, let's say, to the PBGC level, which would be almost that much per year. So you have a big mismatch in the terms of the amount of guarantees. Now, how could that be funded? Obviously that would be a whole other conversation but if you want to use these vehicles, people are right in thinking there's a big counter party risk and there's a lot of things going on and there are reasons why people don't use them. Now we need to look at some of those things and see if we can adjust some public policy in those areas; that's just my thought.

Anybody have questions or comments they would like to make on their session today? I know it's getting late but I'd like to hear. Oh, good, I see Anna getting up. If you don't know her, this is Anna Rappaport, who is the Society of Actuaries expert in this area.

ANNA RAPPAPORT: Arnold, thank you, great session. My question is about the CCRCs. And I think they offer people

a great lifestyle. But I’m thinking about this after years in the financial services industry. I’m concerned about getting underneath the hood of the car. Insurance companies are very regulated, have to hold a lot of reserves, and there are a lot of things done to protect against risk. It would be great if we knew where to find the information about the kind of reserves CCRCs hold and what kind of risks to the buyer there are with CCRCs. The thing that has bothered me in the last couple of years is that if I want to evaluate the CCRC, not from a lifestyle point of view, but from a financial and risk perspective, I can’t find any literature. So if you can tell us where the literature would be, I think that would be a fabulous thing.

WILLIAM SILBERT: I’d be glad to; in fact, we blew by it, but the two documents that I had on the screen at the end look exactly at those issues. What are the financial ratios that are needed? What does a healthy community look like? Days of cash on hand? Other things? They go into that quite deeply.

In probably the last 20 years, there has been much more in the way of sophistication and regulation on these communities, particularly in the last three to four years. The level of scrutiny that communities undergo, in fact, there is an opportunity to be nationally accredited, it’s a self-study process. All of our communities have gone

through that but there are those documents and I'll be happy, we'll have those there—

ARNOLD DICKE: The slide that Bill was referring to, I brought it back up on the screen. It's a book, right, by Howard Winklevoss who was my professor at Wharton when I first studied actuarial science and Alwyn Powell, who lots of you know is an actuary who specialized in this for his whole career: *Continuing Care Retirement Communities: An Empirical Financial and Legal Analysis*. That gives some general background; if you want something specific about specific companies, of course, you have to get it from them.

WILLIAM SILBERT: Those are two recent publications by our trade association we engage and they describe, I think, to your point, hopefully, to your satisfaction, the very issues that you raised. I will say with the recent downturn in the economy, there are continuing care communities that have gotten into trouble and that represents about less than 1 percent of the 1,900 that are out there, but these are the key issues that people want to know about.

ARNOLD DICKE: Thanks, Anna, that was a good question; we appreciate it.

SALLY HASS: Thank you very much for the presentations. I guess I feel like we have a lot of products and services but unless we can do a better job of raising the financial

literacy of workers and getting their attention about what they need to do, that we're really going to continue to fall behind in saving rates and all the kinds of things that workers need to be doing. I think one of the things that the society has got to grapple with is how are we going to raise the bar and get the attention of workers on what they need to do in order to plan for the rest of their life.

One caution that I want to throw out, as much as I'm a real fan of auto enrollment and auto increase and target retirement funds, I think it sends a bad message in terms of language and it basically says, trust us, we're taking care of this for you and it doesn't put the individual in the driver's seat in their own lives and I think that's what we've got to get people to do, is be in that driver's seat in terms of planning for the rest of their lives. But thank you so very much.

ARNOLD DICKE: Thanks. Anyone else?

JOSEPHINE MARKS: I just had a very quick observation. I guess particularly as I was sitting listening to Harrison's presentation, it sounded suspiciously like what we used to call, I think in the '50s, single premium deferred annuities, so I'm wondering if the session should have been called "back to the future." We've got low interest rates again, we're coming up with products that we used to have

50 years ago and I just find from an insurance industry perspective it's sort of amusing sitting here thinking that we're looking at products now that look suspiciously like products that were sold 50 years ago.

ARNOLD DICKE: Yeah, in the U.S. single premium deferred annuities referred to sort of savings account type products and that's why they're using new terminology. Harrison, you have any comments on that?

HARRISON WEAVER: Yeah, I do think that there are a lot of innovative things that are being done in that space currently. Some of them include the ability to accelerate your payments so you can take care of, if you have sudden medical expenses. These are being attached to variable annuities now. There are a lot of different ideas people are coming up with, but I think to your point, everyone sees that there is a need for something like this and even if it's an old idea that they can improve upon, they see the amount of money out there and the amount of need there and they're going to do whatever they can.

RYAN HEASLEY: I have a couple questions from Joe's presentation. You were talking about deferred income annuities right now, like you said it's about $2 billion in 2013 and that's roughly doubled from what it was in 2012, so we're noticing that and we're wondering, you know, we're starting to look into developing that kind of product.

However, you look at it a little bit more closely and it’s clear that it’s only in a couple of distribution channels. You have the captive agencies and career agents and that’s not really one of our channels, so we’re wondering, you know, how long do you think it’s going to take for traction to pick up in other channels, if at all, and what are the forces that drive that?

The other question I have is related to GLWBs. You had a graph that showed the utilization by qualified and nonqualified. With the nonqualified, I’m surprised that even at age 85 and over, the utilization is under 50 percent and these are very expensive riders, so they’re paying out of their ears for this and they’re not even using it, so to me, on the face of it, it just kind of screams suitability problems. And even the qualified ones, it’s pretty much the same until you get to that 70.5 and that kind of looks like they’re taking it just because they’re being forced to. If you could comment on that, that would be great.

JOSEPH MONTMINY: Sure, I’ll actually start with your last question first. I absolutely agree with you that for those nonqualified withdrawals, we see some concerns that there should be a larger percent taking them out but they’re not forced to and I think that’s part of the challenge. Many of them are just in it as an insurance product or a backdrop

if they need it. But on the qualified side, we do hear and I think Rob kind of mentioned this, they have other qualified contracts that they take money from and they don't have to take it out of that VA. So if that VA is growing at a 5 or 6 or even a 7 percent rate, they're likely taking the qualified money out of other qualified contracts first to let this guarantee continue to grow until they absolutely need that money and that's why you're only seeing 80 percent or a little over 80 percent taking it out on the qualified side.

Flipping over to your other question, you know talking about sales through the distribution channels for the DIAs [deferred income annuities], we are starting to see a little bit of a shift. The market was predominantly made up of New York Life when it started back in 2011. Now, we're starting to see wirehouses and full-service national broker dealers sell some. I'd have to say that Fidelity is really the key one that's starting to sell them and bring it over to this distribution channel. I think it may take another year or two until we really get a lot of the other channels comfortable with them. The reason that the career agent channel, with companies like New York Life, Mass Mutual and Northwestern Mutual, are having great success is they've always had the SPIA story, they've talked about income for a number of years, so taking it and going from the

immediate income to a deferred income story wasn't a huge jump from a training perspective for their reps. Other channels that have been focused, kind of getting back to Harrison's point, on going from accumulation to decumulation, they've been so focused on the accumulation story and pushing that message that it's going to take time to build this into their story. It's going to take a little while but I think the market is moving there. The products are there, there may be some other innovation that you will see in a couple years, and we will start to see these markets expand to other distribution channels.

HARRISON WEAVER: I just wanted to add to that comment. My last point that I made about the incentive structure, a lot of times with career agents, you have a lot more control over what you want them to sell, how you compensate them for selling that and until you even kind of get the incentives for brokers or independent agents to catch up with deferred income annuities, I think you're still going to see that lag. If you can develop some kind of like a tail commission or some kind of different structure that will incentivize them to sell, I think that will also be a big contribution to that happening.

ARNOLD DICKE: I think we're definitely out of time now, so I want to thank everyone for coming. Thank you very much.