

# Retirement Security in the New Economy: Developing New Paradigms for the Payout Period

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## Abstract

As we focus on the organization of the retirement security system in the future, it is very important to think about the payout period, and what is needed for successful benefit delivery and sustained income after retirement. During the time when many Americans were covered by traditional defined benefit (DB) plans, this was not seen as a major issue, largely because these plans paid out monthly life income. Under the retirement system as it is evolving, fewer plans pay out monthly life income on a mandatory basis, so voluntary systematic management of the postretirement period through annuitization or other options has become much more important. The economic conditions in 2008-2009 serve to emphasize the importance of focus on the payout period. However, although many people say monthly income is important to them, few people choose monthly income when given a choice of a lump sum, and that has not changed.

This paper will look at the perspectives of several different stakeholder groups: policy makers, plan sponsors, and participants. It will consider:

- how messages create signals and influence behavior
- how reliance on past retirement models reduces favorable outcomes for the future
- how decisions are needed at different times and how they are inter-related
- how plan structure and options influence outcomes, and
- how markets fit in
- how working longer impacts both preretirement and postretirement decision making

Choices are very important and wherever there are choices, defaults are important. While extensive work has been done on defaults for auto-enrollment and investments, much more work is needed on the payout period. This is an issue that cuts across many countries.

As we think about retirement, we should remember that for many people, there are several phases of retirement:

- An initial active period, which may include some work, and which includes a variety of forms of engagement
- A more limited period, where physical or mental limitations impose some restrictions on the individual
- A severely limited period, when a lot of care and support are needed

As we think about payouts, it is important to remember that needs vary during these periods. Earnings to supplement retirement income are most likely in the first period. Extra spending to meet dreams is most likely in the first period. Added costs for care are most likely in the last period. Individuals choosing special housing that includes support will find significant extra costs for such housing.

This paper builds on work done previously by Anna Rappaport for Retirement 20/20—papers on default options in defined contribution (DC) plans and signals and the form of retirement income, on testimony given to the ERISA Advisory Council by Anna Rappaport in 2008 and 2009, on papers from the OECD that help us understand why this is a global issue, and on work on holistic planning and decision making. It will cite some research from the Society of Actuaries (SOA) and other sources. It reflects the opinions of the author and does not represent the opinion of any organization.