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**RETIREMENT  
INCOME  
INSTITUTE**

| Alliance for  
Lifetime  
Income

2020  
**END  
OF  
YEAR  
REPORT**



## INTRODUCTION

The Retirement Income Institute (“Institute”), a project of the Alliance for Lifetime Income (“Alliance”), was founded in 2020 to facilitate and foster private-sector innovation and reform to shape a future in which Americans are able to retire with less risk, more confidence, and a more secure economic future.

The Institute’s mission is to create a bridge from ideas, research, and evidence to action related to protected lifetime income --- by retirement savers, the Alliance’s member companies, employers, financial professionals, and other key participants in the United States’ retirement ecosystem. The core of the Institute’s mission is to sponsor and otherwise foster new research and analysis, as well as new ideas and insights supported by data and evidence, about protected lifetime income for Americans’ retirement. At all times, the Institute will remain tightly focused on producing ideas and information that can be translated into action that benefits individuals, families, and our society.

The Institute has had a busy and successful first year of operations that included producing a sizable number of insightful research and translational products related to retirement income. These works seek to offer private-sector-related insights and solutions to one of the great societal challenges of our time: many Americans lack sufficient, reliable, and protected retirement income that will last for the rest of their lives. The Institute has focused its efforts principally on the retirement industry (including employer plan sponsors and their service providers) and its products and services, as well as retirement savers and retirement financial professionals. The Institute has, on occasion, addressed a public policy issue, but it is not a public policy think-tank regularly addressing legislative or regulatory issues or government programs.

The Institute plans to continue and grow its success in 2021. The Institute’s first 2021 call for papers was distributed in December 2020. This call for papers of multiple types included an announcement of the Institute’s 2021 research agenda. The Institute will issue additional calls for papers every quarter throughout the following calendar year. We strongly encourage any interested scholar or other retirement experts to review these calls for papers and submit their relevant works to the Institute for our consideration. Calls for papers will be published on the Institute’s web page at <https://www.allianceforlifetimeincome.org/feature/retirement-income-institute-call-for-papers/>. The Institute also will send the calls for papers to potential authors by email in advance of publication. If you would like to be added to the Institute’s email list, please send the relevant information to [institute@alincome.org](mailto:institute@alincome.org)



**Ben Harris**

*Economist, Alliance Fellow and advisor for the Retirement Income Institute offers his perspective at an Alliance summit.*

### *Institute Leadership and Advisory Groups*

The Institute is ably led by three co-chairs:

- Jon Forman, Co-Chair, Scholars Advisory Group; Kenneth E. McAfee Centennial Chair in Law, University of Oklahoma College of Law;
- Leora Friedberg, Co-Chair, Scholars Advisory Group; Associate Professor of Economics and Public Policy, University of Virginia Frank Batten School of Leadership and Public Policy; and
- Barry Stowe, Co-Chair, Retirement Industry Advisory Group; former CEO of Jackson National Life Insurance, and member of the Board of Directors for Zurich Insurance Group.

The co-chairs receive valuable advice from distinguished academic, think-tank, and industry experts during quarterly meetings of the Institute’s Scholars Advisory Group (SAG) and Retirement Industry Advisory Group (RIAG). Interested readers may review the memberships of the SAG and the RIAG respectively at <https://www.allianceforlifetimeincome.org/retirement-scholars-advisory-group/> and <https://www.allianceforlifetimeincome.org/retirement-industry-advisory-group/>. Both the SAG and RIAG have played essential roles in defining the Institute’s research agenda and developing and reviewing research proposals. SAG members also have contributed to the list of scholarly works funded and supported by the Institute in 2020.

### *Types of Research Funded and Supported by the Retirement Income Institute*

In 2020, the Retirement Income Institute began funding and otherwise supporting five categories of scholarly work:

- **Original Scholarly Research:** Original scholarly research papers present new research from scholars in the field that is empirical, experimental, or otherwise evidence-based.
- **Scholarly Works in Progress:** A “scholarly work in progress” is an ongoing and original scholarly research project already in progress that is empirical, experimental, or otherwise evidence-based. The Institute seeks to fund relevant projects that otherwise might not come to fruition absent additional funding or that could be expanded with additional funding into new areas that will advance the Institute’s Research Agenda.
- **Literature Reviews:** A “literature review” is a synthesis of approximately 2,500 to 5,000 words in length of the current state of scholarly research in the topic area. Literature reviews funded by the Institute must be written in plain English with the expectation they will be read and understood by non-scholars in the American retirement ecosystem, including retirement savers, financial professionals, and employees of the Alliance’s member companies, among others. Most important, literature reviews assess the prominent scholarly articles related to a topic, describe the results and insights in those articles, and offer the author’s unique assessment of the existing literature.
- **Essays:** An “essay” is a scholarly writing of approximately 2,500 to 5,000 words in length that is final and ready for publication. Essays focus on ideas that are relevant to the topic and reference the most prominent and important writings that are relevant to the topic. Most important, essays are expressions of the author’s original insights, ideas, analyses, and solutions relating to the topic. Essay authors are strongly encouraged to include in their essays recommendations of additional research that would further increase and expand knowledge about their topic.
- **Retirement Income Insights:** Retirement Income Insights or “Insights” are translations of scholarly articles about retirement income and annuities. Insights glean findings from individual scholarly articles, or similar articles on the same topic, and describe those findings in plain-English terms so that they are easily understandable and actionable for an audience (or audiences) within the retirement ecosystem such as, retirement savers, financial professionals, annuity manufacturers, and asset managers.

## Retirement Income Institute's 2020 Research Agenda

The Institute's plan in 2020 was to focus efforts on research topics where our involvement could make a meaningful contribution. In order to identify a short list of such topics, the Institute engaged with its Scholars Advisory Group (SAG) and its Retirement Industry Advisory Group (RIAG) in late 2019 to develop, consider, debate, and decide on potential subjects for research. The SAG includes some of the leading academic scholars and experts in the field of retirement income and security. The group generates new research and analysis, along with data and evidence about protected lifetime income for Americans' retirement security. The RIAG includes leading business executives from the Alliance's member companies, industry experts and thought leaders. The group provides business insights and data, and helps develop real-world innovations and applications to the Institute's research to help advance the retirement income security of Americans.

After these discussions, and consultations with the Alliance's Board of Directors and Operating Committee, the Institute announced that its 2020 research agenda would include four topics:

1. New approaches to the annuity puzzle
2. Optimizing annuities in a retirement portfolio
3. Private-sector solutions to legal and regulatory barriers to annuities in 401(k) plans
4. Differences in consumer behavior and decision-making

This research agenda succeeded. All works funded and supported by the Institute served to advance one or more of the topics on the Institute's 2020 research agenda. In addition, the Institute received a surprisingly large number of submissions in response to its calls for papers and other solicitations, especially given that the Institute is a new funding source for academic research. Equally important, some Institute-supported works took center stage at the Alliance's 2020 Retirement Income Dialogues where more than 150 people from all aspects of the American retirement ecosystem listened to presentations and discussed these scholarly works. One of these works was highlighted in a leading industry trade *publication*.

## Scholarly Works Funded and Supported by the Retirement Income Institute

The following is a complete list of scholarly works funded or supported by the Institute, organized according to the topics on the Institute's 2020 research agenda. This list includes a brief abstract or summary of each work. Interested readers may click on the titles of already-published works to read the full work. The works described as "forthcoming" are still in progress and should be published in the coming months.

## NEW APPROACHES TO THE ANNUITY PUZZLE

### *Literature Reviews:*

Liu, Junhao, “Annuities – Whose Cup of Tea? A Literature Review” (forthcoming)

- This literature review aims to advance our knowledge about consumer demand for annuities and life-protected income. While the classic economic literature predicts substantial take-up of annuities, many empirical studies find the participation rate to be well below the predicted level, a situation called the annuity puzzle. An important step in solving this puzzle is to understand the decision-making processes that consumers use when considering purchase of an annuity. In this review Liu surveys and synthesizes the academic research frontier on key factors that influence the demand for annuities, drawing on empirical studies from multiple disciplines including economics, finance, insurance, marketing, and psychology. In addition to critiquing the methods and findings of studies that have been done, Liu makes suggestions for future research, prioritizing the most actionable issues for the American retirement ecosystem.

This review consists of four sections. The first reviews the demographic and economic factors that impact consumer demand for annuities. The second section examines the role of rational consumer preferences in making decisions about annuities. The third section covers behavioral impediments and the product design of annuities and life-protected income. Finally, Liu offers some concluding remarks and suggests future research.

### *Essays:*

de Cervens, Jeanne, [\*“A New Take on the Annuity Puzzle”\*](#) -- Retirement Income Institute Essay #002-2020

- Jeanne de Cervens presents a new take on the annuity puzzle in this essay. Recent legislation, financial education, calculators and other tools, financial wellness programs, research, and lessons learned from the current financial crisis increase critical awareness of the need to reduce the risks inherent in trying to accurately spend down retirement savings in retirement. It is time to apply this knowledge to reframe the annuity puzzle. The annuity puzzle question of why individuals do not protect themselves against the risk of outliving their retirement savings by purchasing an annuity should be reframed as the retirement puzzle in which annuities are an essential piece in solving the question of how to protect against longevity and other risks in retirement.

### *Insights:*

Cannon, Edmund and Ian Tonks, “Value-for-Money and Prudential Regulation of Annuities” (forthcoming)

- In this article, Ian Tonks and Edmund Cannon aim to help readers understand the interaction between selection effects and regulatory reserving for annuities. Claims that annuities are poorly priced due to adverse selection should be treated as unproven. Also, regulation of annuity products may result in them becoming more expensive.

Fichtner, Jason and Kaitlyn O’Neill, [\*“The Annuitization Decision and Framing”\*](#) -- Retirement Income Insight #016-2020

- This Insight addresses the annuity puzzle and suggests pursuing three ideas related to the framing, or presentation, of the annuitization decision in order to address it.

Fichtner, Jason and Kaitlyn O'Neill, "[\*The Annuity Puzzle and Bequest Motives\*](#)" -- Retirement Income Insight #018-2020

- This Insight focuses on the role of bequest motives in explaining the annuity puzzle. The insights derived from the author's simulation help explain the low demand for annuities, despite their many benefits.

Fichtner, Jason and Kaitlyn O'Neill, "[\*The Annuity Puzzle and the Role of Pension Plan Structure and Decision Framing\*](#)" -- Retirement Income Insight #017-2020

- The findings in this Insight suggest that low annuitization rates may be explained by pension plan structure design and that the framing of the annuitization decision for retirees may impact their decisions, with a consumption frame promoting annuitization and an investment frame discouraging annuitization.

Fichtner, Jason and Kaitlyn O'Neill, "[\*The Decision to Annuitize: Reconciling Economic Theory and Consumer Behavior Using Behavioral Economics\*](#)" -- Retirement Income Insight #015-2020

- This Insight investigates how the framing of annuity decisions has a major impact on the annuitization decision. It looks at financial literacy, explanations of benefits and downfalls, and the decision between an annuity and lump sum to address the annuity puzzle.

Fichtner, Jason and Kaitlyn O'Neill, "[\*The Impact of Defined Benefit Pension Plan Features on the Annuitization Decision and Implications for Defined Contribution Benefit Plan Design\*](#)" -- Retirement Income Insight #002-2020

- This Insight explores findings that employers' retirement plan rules can drive annuitization decisions and that the age of the participant and account balance are important factors affecting annuitization decisions. Changing pension payout rules can also change annuitization behavior.

Fichtner, Jason and Kaitlyn O'Neill, "[\*Using Prospect Theory to Explain Annuity and Insurance Market Puzzles\*](#)" -- Retirement Income Insight #014-2020

- Based on the findings in this Insight, the authors suggest the exploration of a hybrid product that provides consumers with life insurance at younger ages (working ages), and then converts to an annuity when the consumer retires.

Hanegbi, Rami, "Policies to Increase the Popularity of Lifetime Annuities" (forthcoming)

- Rami Hanegbi discusses how policymakers can aim to emulate some of the salient characteristics of high-annuity markets into more-widespread annuity markets. Specifically, laws that facilitate and encourage retirement plans to directly offer lifetime annuities, the presence of a more comprehensive and universal annuity guarantee system, and laws that encourage the framing of annuities in a positive manner, can operate synergistically to improve annuitization rates.

## OPTIMIZING ANNUITIES IN A RETIREMENT PORTFOLIO

### *Original Research:*

Blanchett, David and Michael Finke, “Adverse Selection and the Welfare Impact of Immediate Annuities in Retirement Plan Investment Defaults” (forthcoming)

- Retail annuity buyers live longer than average Americans. Annuities are priced using current rates of return on bond investments and the expected longevity of annuitants. The longer lifespan of annuity buyers reduces the value of retail annuities to average workers interested in buying guaranteed lifetime income in retirement due to adverse selection. Adding annuities to investment defaults within defined contribution plans has the potential to reduce adverse selection and improve welfare among participants in defined contribution plans. Adverse selection exists in the annuity market because buyers who expect a shorter lifespan are less likely to buy an annuity. The higher price of retail annuities reduces the welfare benefits to lower-income workers who, on average, have shorter expected lifespans (Mitchell, Poterba, Warshawsky and Brown, 1999). Pooling unknown longevity through annuities has the potential to improve welfare for even shorter-lived workers, but this improvement is negatively affected by the longevity of annuity buyers. Reduced barriers to annuitization within defined contribution plans through the SECURE Act of 2019 decrease the perceived liability risk of adding annuities to core menus or investment defaults (i.e., qualified default investment alternatives, or QDIAs). Annuities added to a defined contribution plan menu will likely be priced to account for greater expected demand from higher-income, longer-lived workers (Finkelstein and Poterba, 2005). Default annuitization can reduce the welfare reduction that results from adverse selection. Lower-income workers are less likely to opt-out of investment defaults than higher-income workers (Goda et al., 2020). Adding annuitization to a QDIA will provide annuitization to a pool of workers with a lower expected longevity. DC plans with a large percentage of lower-income workers may be able to significantly improve employee welfare by inserting guaranteed income within a QDIA.

Fichtner, Jason and Michael Finke, “Providing a Guaranteed Income Option Within a Target Date Lifecycle Retirement Fund” (forthcoming)

- Plan sponsor protections provided through the SECURE Act reduced a significant barrier to employer adoption of within-plan annuitization products. Prior academic studies found evidence of consumer interest in lifetime retirement income, but no study has surveyed a large sample of plan participants to carefully gauge demand for a range of possible annuitization options. Such a survey would give plan sponsors a deeper understanding of preferences for product characteristics among workers including income stability, liquidity, legacy, and control over the amount of savings annuitized. We also want to gain a better understanding of differences in preference for guaranteed income among the 59% of plan participants who select automated investment vehicles such as target-date funds and managed accounts, and the majority of near-retirees who select core menu funds. In addition to evaluating preferences, we will conduct a test of guaranteed income messaging language to help plan sponsors better craft information about income products for participants.

Our objective is to create and field a survey among plan participants and create a white paper that helps plan sponsors and the industry better understand the desire for guaranteed income and preferences among a range of products characteristics. We hope to conduct the survey among a diverse sample of participants to identify employee characteristics associated with guaranteed income demand.

**Literature Reviews:**

Webb, Anthony, *“How does the risk of incurring out-of-pocket health and long-term care costs affect the value of annuities?”* -- Retirement Income Institute Literature Review #001-2020

- This literature review critically appraises the literature on the impact of the risk of incurring out-of-pocket health-care costs, primarily long-term care costs, on the value of annuitization and the optimal annuity share of financial wealth. A limitation of the literature is its focus on unmarried individuals. Care costs affect the finances of the surviving spouse and likely substantially increase the optimal annuity share for married couples because Medicaid spousal protection rules favor annuitized over unannuitized wealth. Models excluding housing wealth also understate the optimal annuitized share because housing wealth can be liquidated to pay for care costs, which reduces the need to retain liquid financial assets. Annuities providing enhanced benefits when in long-term care will likely appeal only to the upper-middle class; for lower-wealth households, much of the benefit of long-term care insurance accrues not to the policyholder but to the government in the form of lower Medicaid outlays.

Three key takeaways: Theoretical models of the impact of care costs on the value of annuitization focus on unmarried individuals. Couples will likely value annuitization more highly because annuities protect their assets from Medicaid; Theoretical models that disregard a family’s house also understate the value of annuitization because the house can sometimes be used to pay for care costs, thus reducing the need to preserve liquid financial assets; Bundling annuities with long-term care insurance will be attractive only to households that are sufficiently wealthy to be unlikely to ever qualify for Medicaid.

Webb, Anthony, “What lessons, if any, can practitioners apply from academic economists about the role of annuities in post-retirement asset decumulation?” (forthcoming)

- This study investigates what, if anything, practitioners can learn from the literature modeling how households can use annuities to manage post retirement asset decumulation and whether the studies reveal a need for innovative annuity products. The study concludes that a desire to retain exposure to the stock market is not a justification for shunning annuities, as annuity products exist that offer equity exposure. Households will be better off purchasing longevity annuities than simply deferring annuitization. Whether longevity annuities are preferable to immediate annuitization depends on the household’s level of risk aversion and the relative expense loads of the two products. Although annuities involve a loss of liquidity that may be valuable to households facing uncertain health care cost, annuitization may nonetheless benefit such households because Medicaid treats annuities more favorably than unannuitized wealth. The focus of the literature is on immediate and longevity annuities. However, the majority of annuity purchases are of deferred annuities. Their role in retirement wealth decumulation has been under-researched and should be a focus of future research. In theory, annuities can enhance household financial wellbeing. Households facing the task of consuming wealth during retirement must trade-off the risk of outliving their wealth against the cost of unnecessarily restricting their consumption. Most households that do not annuitize will die with unconsumed wealth. Annuities can enhance household well-being by reallocating this unconsumed wealth to households that live. In practice, the household’s decision is more complex. Should the household annuitize all or part of its wealth? Should it annuitize immediately, delay until the older ages at which annuity rates are more favorable, or purchase a longevity annuity? Should the household purchase a fixed annuity or one with payouts linked to the performance of a stock fund? And how might the risk of incurring medical costs affect the calculation? This literature review surveys the literature and attempts to answer the above questions.

**Essays:**

Mackenzie, George A. (Sandy), *[“Longstanding and Novel Risks Facing Households Already Retired and Households in the Run-Up to Retirement”](#)* -- Retirement Income Institute Essay #001-2020

- Both pre-retired and already retired households have always faced, in varying degrees of severity, five basic risks: longevity, investment and employment, healthcare costs, long-term care, and political risks. In this essay, former editor of the Journal of Retirement, Sandy Mackenzie, describes and analyzes each of the five risks and addresses the extent to which formal or informal insurance arrangements or institutions can address them adequately. But this essay also addresses a new, and forbidding, risk that could affect each of the five longstanding risks: the risk or risks entailed by the economic and financial consequences of the COVID-19 pandemic. The essay’s presentation addresses each of these five risks, and ends with some tentative conclusions and recommendations for public policy, and for households and businesses. These include increasing long-term care funding, providing healthcare for all, and more options for annuitization. The insurance industry and the government both have a role to play. While there are steps the government must take to alleviate financial downturn pain, the insurance industry can play a critical role in helping Americans regain security.

**Insights:**

Anderson, Julie on article, “Incorporating Financial Risk Tolerance Research into the Financial Planning Process” (forthcoming)

Anderson, Julie on article, “Research and Reality - A Literature Review on Drawing Down Retirement Financial Savings” (forthcoming)

Anderson, Julie, “Stock market returns and annuitization” (forthcoming)

- This Insight explains that consumers should be aware that recent stock market returns could be influencing their decision as to whether to annuitize their retirement savings. Annuity plan providers should consider effects of stock returns when promoting annuities, especially in light of the commonly held belief that individuals should guard against equity exposure risk as they age. When designing policies that encourage annuitization, policymakers need to take into account the effects of recent stock returns on the individual’s decision to annuitize, particularly among older Americans.

Gatzert, Nadine, *[“The Annuity Puzzle: Drivers of Annuitization Decisions, Behavioral Biases, and Potential Solutions to Under-Annuitization”](#)* -- Retirement Income Insight #021-2020

- This Insight addresses the annuity puzzle and explains how in light of a growing elderly population in many countries, combined with an increasing life expectancy, annuities have become an increasingly important way to avert old-age poverty by protecting people against longevity risk, or the risk of outliving their money.

Jamison, Linda, *[“How Default Annuities Can Help Protect Against Running Out of Retirement Income”](#)* Retirement Income Insight #023-2020

- Automatically investing a small amount of retirees’ employer-provided retirement assets into annuities can enhance retirees’ well-being as they age. This Insight explains how this type of program can help protect retirees from depleting their retirement savings before the end of their lives.

Mackenzie, George A. (Sandy) “Can an Experiment Shed Light on the Decision to Annuitize?” (forthcoming)

- This Insight summarizes reports on an experiment that examines the potential role of the default setting, and also addresses the potential attractiveness of a deferred or longevity annuity. Experiments are a relatively new development in empirical economics.

Pashchenko, Svetlana, *“What Factors can Explain Low Annuity Market Participation Rates Among U.S. Retirees?”* -- Retirement Income Insight #022-2020

- This Insight evaluates different reasons why retirement savers in the United States do not buy private annuities. The author provides insights that can be put into action by retirees and their financial planners, annuity manufacturers, and policymakers and regulators.

Pfau, Wade, *“Understanding Why Annuities Work Better Than Bonds in a Retirement Income Portfolio”* -- Retirement Income Insight #001-2020

- This Insight uses findings from three related articles to help retirees and their advisors understand why bonds are the least efficient way to fund a spending goal in retirement. The author explains how annuities can replace bonds to support a retirement spending goal and why it is okay to use a more aggressive asset allocation with remaining investments.

Pfau, Wade, *“Helping Plan Sponsors Provide a Full Menu of Retirement Income Options to Their Participants”* -- Retirement Income Insight #011-2020

- This Insight provides guidance to plan sponsors about building a menu of tools to help their participants create effective retirement income plans. In addition to traditional investment options, the authors suggest including annuities, investment funds that also manage distributions for retirement spending, and a fixed income tool that can support delaying Social Security benefits.

Webb, Anthony, *“The Advanced Life Deferred Annuity- Cost-Effective Insurance Against the Risk of Outliving One’s Wealth”* -- Retirement Income Insight #003-2020

- This Insight explains advanced life deferred annuities and explores their benefits for various audiences: retirement savers and their financial advisors, annuity manufacturers, plan sponsors, and policy makers and regulators.

# PRIVATE SECTOR SOLUTIONS FOR LEGAL AND REGULATORY BARRIERS TO ANNUITIES IN 401(K) PLANS

## *Original Research:*

Pratt, David, “Private-Sector Solutions for Legal and Regulatory Barriers to Annuities in 401(k) Plans” (forthcoming)

- Over the last 30 years, the number of traditional (defined benefit) pension plans in the private sector has declined dramatically, and the dominant form of retirement plans is now the 401(k) plan. The focus of concern has recently shifted from accumulating 401(k) plan assets to providing greater retirement income security for 401(k) plan participants and beneficiaries. In 2010, the DOL and the Treasury Department solicited information on how they might enhance retirement security by facilitating access to, and use of, lifetime income or other arrangements designed to provide a lifetime stream of income after retirement (the Request for Information [RFI]). The RFI generated considerable public comment but there were few actual developments. Part of the delay may be attributed to a certain ambivalence on the part of DOL. On the one hand, they wanted to encourage lifetime income: on the other hand, they were wary of relaxing the strict fiduciary standards of ERISA. The SECURE Act, enacted in December, 2019, includes major lifetime income-related provisions, which will reduce some of the barriers that have discouraged the use of lifetime income products by defined contribution plans, and hopefully will also encourage participants to think about their retirement savings as producing a lifetime income stream.

The U.S. retirement system is huge. According to the Federal Reserve Board, total financial assets of pension funds were \$23.4 trillion as of March 31, 2020, of which \$7.5 trillion was attributable to defined contribution plans, including 401(k) plans but excluding individual retirement accounts (IRAs) which hold more assets than 401(k) plans. Given the uncertain state of the economy as a result of the business disruption caused by the Coronavirus, and the difficulty of reaching bipartisan solutions, it will be difficult for the federal government to enact significant legislation or issue major regulatory guidance. Accordingly, this is a good time for the Alliance for Lifetime Income, other industry groups and groups advocating for the U.S. retirement system (such as the ERISA Industry Committee, the American Benefits Council and the American Retirement Association) to think creatively about how to develop and implement private sector solutions to improve retirement income security. This paper considers some of the possible industry solutions and also discusses changes that could only be accomplished by legislation or regulatory guidance.

Increasing the use of lifetime income solutions in 401(k) plans is not a short-term endeavor. Extensive targeted education of plan sponsors, investment advisors, record-keepers and individual plan participants will be essential. Product development and redesign to meet the needs of plan sponsors and plan participants will be important. Individuals’ aversion to annuities, though often irrational, is deep-seated, partly because they have been encouraged to focus on the accumulation of assets as an end in itself, rather than as a means of providing retirement income. Hopefully, the insurance industry is willing to invest the necessary resources, to change long-established marketing and distribution practices, and to allow time for the initiatives to bear fruit.

## UNDERSTANDING DIFFERENCES IN CONSUMER BEHAVIOR AND DECISION-MAKING

### *Scholarly Works in Progress*

Hasler, Andrea and Annamaria Lusardi, “Financial Fragility among Middle-Income Households: Evidence Beyond Asset Building” (forthcoming)

- The economic impact of the current pandemic lays bare the deeply rooted financial insecurity that many Americans face on a daily basis. Even before the pandemic started, our research shows that a substantial share of households in the middle-income bracket could not face a mid-size shock, let alone the loss of income and unexpected expenses they are likely to face going forward. Not only are many Americans unable to face a shock, but our research also finds that financial fragility, i.e., the inability to cope with a mid-size shock in a short period of time, has severe long-term consequences: financially fragile households are much less likely to plan for retirement. This long-term implication augments the importance of studying financial fragility and is a crucial part of our research agenda. With the financial support provided by the Retirement Income Institute, we will complete this large project and expand our empirical analysis.

Hurwitz, Abigail, Olivia Mitchell and Orly Sade, “Testing Methods to Enhance Longevity Awareness” (forthcoming)

- Past research has demonstrated that many people have only a vague notion of the concept of life expectancy and the longevity risk they face at older ages, which in turn implies that they are likely to under save for retirement. Our project uses two field experiments and two experimental surveys to investigate alternative ways to describe both life expectancy and longevity risk, to assess how these might raise peoples’ awareness of possible retirement shortfalls. We also will seek to evaluate whether providing this information can promote interest in saving activity, advice-seeking from experts, and demand for longevity insurance products, comparing behavior in both Israel and the United States. We anticipate contributing to the academic literature by investigating the consequences of introducing the concepts of life expectancy and longevity risk to actual clients of two firms in Israel and similar-aged survey participants in the U.S. Additionally, we will study financial decisions during the COVID-19 epidemic: our first experimental survey was fielded at the beginning of the U.S. epidemic, and we intend to complete a second survey toward the end of 2020, to compare potential differences in perceptions and behavior.

### *Essays:*

Rappaport, Anna, *“Thinking About Using Assets During Retirement”* -- Retirement Income Institute Essay #003-2020

- In the first half of 2020, the COVID-19 pandemic changed the week-by-week lives of the vast majority of Americans. In June 2020, several months after the pandemic started, the question is whether it will also change our longer-term thinking about retirement and how to use our assets in retirement. This essay updates a “Perspectives from Anna” column I wrote in 2019 bringing together SOA research and how it influences the use of assets during retirement.

I have been thinking about managing accumulated assets during the post-retirement period for more than 20 years. Over the last few years, I have become more focused on people’s financial fragility and emergency funds. As a result of the research and discussions in the Society

of Actuaries' Committee on Post-Retirement Needs and Risks, I have gradually changed some of my thinking about the use of annuities and assets during the post-retirement period.

Much of my career was spent as a retirement consultant in a large firm where most of our clients had defined benefit plans. Many of those clients also had defined contribution plans. For those people who had both types of plans, the idea was the defined benefit plans would provide income in addition to Social Security and the defined contribution plans would provide a pool of assets. This worked well for people with long careers under both types of plans, but not so well for many others.

I have always been a strong proponent of lifetime income, longer-term thinking and planning, informed decision-making, and risk management. For many years, I had an expectation that longer-term thinking was a key part of retirement planning and that people could be expected to think about the long term. I thought that annuities would be a very good retirement solution for many people. Focus groups, in-depth interviews and surveys conducted by the Society of Actuaries have changed my thinking about what is realistic for many people.

### ***Insights:***

Anderson, Julie, [\*“Gender Differences in how Young People Learn about Finances and their Willingness to Take Financial Risks”\*](#) -- Retirement Income Insight #006-2020

- This Insight focuses on the willingness to take financial risks by analyzing financial socialization differences in college students and discusses the long-term implications of these gender differences. Financial socialization and discussion had more of an impact than observing positive behaviors in parents, for example.

Anderson, Julie, [\*“How Racial Differences in Trust Can Affect Decisions about Financial Planning”\*](#) Retirement Income Insight #010-2020

- This Insight explores whether racial differences in generalized trust can a) affect a person's decision to hire a financial planner, and b) explain variations in retirement savings.

Anderson, Julie, [\*“How to Increase Annuitization Rates in the United States”\*](#) -- Retirement Income Insight #008-2020

- Annuity plan providers can implement two changes to encourage more Americans to annuitize retirement savings. First, they can reframe the decision to annuitize using language that focuses on income and consumption rather than investing and earning. Second, they can communicate a minimal “target level” for annuitization that serves as an anchor and positively influences consumer decisions.

Anderson, Julie, [\*“Relationship between Retiree Wealth, Health, and Annuities and Retirement Satisfaction”\*](#) -- Retirement Income Insight #009-2020

- As older consumers and retirees face the decision about whether to annuitize and how much of their retirement savings to annuitize in the current period of economic uncertainty, this paper outlines ways annuitizing can boost retirement satisfaction.

Anderson, Julie, [\*“Trends in Retirement Security by Race/Ethnicity”\*](#) -- Retirement Income Insight #024-2020

- This Insight explains how consumers can protect against retirement risk by creating steady income streams—such as annuities—to mitigate financial downturns. Annuity plan providers can encourage more Americans to annuitize their retirement savings, particularly those who do not have home equity due to lower home values or who do not own a home.

Anderson, Julie on article, “User-Source Fit and Financial Information Source Selection of Millennials” (forthcoming)

Anderson, Julie, [\*“What Factors Related to Overall Well-Being Make Retirees Happy?”\*](#) -- Retirement Income Insight #005-2020

- This Insight explores the suggestion that consumers, retirees, and financial professionals should prioritize adding a source of protected lifetime income, like annuities, when planning for retirement. Protected lifetime income instruments are too important to well-being not to include them in individuals’ retirement strategies. The author also outlines two non-economic factors that also contribute to the well-being of retirees: the reason for their retirement and their health.

Jamison, Linda, “Focused Research on Women Can Shed Better Light on the Dilemmas They Face in Saving for Retirement” (forthcoming)

- Historically, researchers have paid very little attention to studying how women plan for retirement despite the data showing that, on average, women live longer than men and yet often fail to save as much for retirement. The author dives into research that suggests new areas of study are needed that focus only on women and that measure the combined impact of the unique demographic, psychological, financial, social, economic, and circumstantial factors that influence women in making their financial decisions about retirement.

Jamison, Linda “How to Understand Who Is Seeking Financial Advice” (forthcoming)

- This Insight reviews a study that examines the psychological, demographic, and economic factors to shed new light on whether consumers look for financial assistance from experts when it comes to five kinds of advice: (1) managing debt, (2) handling investments and savings, (3) securing a mortgage or a loan, (4) purchasing insurance, and (5) tax planning.

Leombroni, Matteo, “The Value of Annuities vs Lump Sum Payments for Retirees” (forthcoming)

- This Insight addresses the annuity puzzle and concludes that policymakers should explore the efficacy of more cost-effective solutions to low annuitization rates, such as making life annuities the default retirement payout choice in retirement plans.

Lusardi, Annamaria, [\*“Boosting Financial Literacy to Improve Retirement Planning”\*](#) -- Retirement Income Insight #019-2020

- The findings of this Insight suggest that financial literacy is strongly tied to retirement planning behavior. To elevate the level of financial literacy, which is low, employers could promote workplace financial wellness programs and other initiatives to boost retirement readiness.

Secunda, Paul, *[“Household Savings and Level of Retirement Investors’ Interest in Immediate Annuities”](#)* -- Retirement Income Insight #012-2020

- This Insight suggests why immediate annuities should be an aspect of any retirement income portfolio. The Insight explains why immediate annuities should be specifically marketed to those in the bottom and top quintiles of American earners, but how those in the middle need better education about the benefits of annuities and targeted incentives to invest in them.

Secunda, Paul, *[“The Importance of De-emphasizing Death or Dying When Promoting Annuities”](#)* -- Retirement Income Insight #013-2020

- This Insight explains how policymakers, annuity manufacturers, and annuity distributors can make simple changes to the description of their immediate life annuities that will increase the likelihood that retirement investors will purchase their products. Research shows that de-emphasizing death or dying when promoting annuities can lead to a substantial uptake in individuals’ willingness to purchase annuity products.

Sommer, Matthew, *[“Do Individuals Select Similar Gender Advisors? And, What Advisor Attributes Are Most Important to Male and Female Clients?”](#)* -- Retirement Income Insight #020-2020

- This Insight explores a study’s findings that individuals do not select advisors based on gender, but rather, on the attributes of the advisor.

Webb, Anthony, *[“What Factors Influence Annuity Value for Money: Lessons from Other Countries”](#)* Retirement Income Insight #004-2020

- This Insight explores studies of money’s worth and dispersion in money’s worth, or economic value, both across product types and between manufacturers in U.K., Australia, Singapore, Canada, Chile, Israel, Switzerland, and the United States.

Yao, Rui, *[“Using a Financial Planner and Portfolio Performance”](#)* -- Retirement Income Insight #007-2020

- This Insight explores the relationship between the “primary information source” that investors say they used to make their retirement investment decisions and their entire household’s investment portfolio’s performance.