RETIREMENT INCOME INSTITUTE

Alliance for Lifetime Income

2022 END-OF-YEAR REPORT

The Retirement Income Institute is a scholarly research and thought-leadership program of the Alliance for Lifetime Income. Founded in 2019, the Institute facilitates and fosters private-sector innovation to help shape a future in which Americans are able to retire with less risk, more confidence and greater retirement income. Over the past two years, the Institute has assembled some of the world's leading academics and experts in protected income and retirement to conduct research and pursue solutions to one of the great societal challenges of our time: many Americans lacking sufficient, reliable and protected income that will last for the rest of their lives.

WHAT'S INSIDE

In the following pages, you will find:

- unique research that the Institute has conducted over the past year in collaboration with leading scholars and private sector companies;
- research the Institute currently has in progress;
- ways that other researchers and interested organizations can get involved to further the Institute's mission and research agenda.

RETIREMENT INCOME INSTITUTE
Alliance for Lifetime Income

INTRODUCTION

The Institute's mission is to create a bridge from research and ideas to action related to protected income — by retirement savers, the Alliance's member companies, employers that sponsor retirement plans, financial professionals, organizations, and experts in the United States' retirement ecosystem. The Institute sponsors and fosters new research and analysis, as well as new ideas and insights supported by data and evidence. The Institute supports research aimed at a wide audience, including academics, financial professionals, journalists and policymakers. In this way, the ideas and information that the Institute aims to produce are intended to be translated into action that benefits individuals, families and our society.

SHIFTING THE NARRATIVE

Since being established four years ago, the Institute houses education and research fellows who are some of the leading researchers and experts in retirement income today. The Institute has helped to foster a greater awareness and new understanding of protected income products and annuities in the scholarly community, across the media, among financial professionals, within the sphere of employer plan providers, and for individuals and households seeking to secure their retirement. The Institute has accomplished this by sponsoring a robust research agenda and sharing knowledge across the retirement ecosystem. In 2022, the Institute sponsored research in association with scholars at George Washington University and its Global Financial Literacy Excellence Center; the University of Virginia; the Wharton School at the University of Pennsylvania; Georgetown University and its AgingWell Hub; Purdue University; the Employment Benefit Research Institute; the University of Texas; the University of Wisconsin and its Center for Financial Security; and multiple Institute and Alliance fellows. We are now approaching 100 pieces of original research and publications on our website and have worked with over 50 different authors.

> *A country where no American has to face the prospect of running out of money in retirement.*

The Institute's exclusive, invitation-only Summit in May — well attended by industry executives, thought leaders, media and, most importantly, consumers themselves — exemplified a dialogue and cross-pollination of new ideas across the retirement ecosystem. Sessions organized by education and research fellows highlighted the gains from exchanging ideas in order to reduce barriers to the use of lifetime income products in what the Alliance calls the Peak-65 era. The 2023 Summit is scheduled for May 15-16, and will once again be held at the Ronald Reagan International Trade Center in Washington, D.C.

WHAT'S NEXT

Going forward, we are continuing the work of producing actionable research that emphasizes solutions to challenges we have identified: how to promote risk comprehension; how to characterize lifetime income products as part of a balanced retirement portfolio; how to further the efforts of financial professionals with better tools and educational materials to inform consumers about protected income products and strategies; and how to develop a strategy for employer retirement plans that incorporates defaults to increase access to lifetime income.

The Institute has posted research priorities on the Institute's webpage. We welcome any interested scholars and other retirement experts to review these priorities and submit their relevant proposals to the Institute for our consideration. If you would like to be added to the Institute's email list, please send the relevant information to **institute@alincome.org**.

INSTITUTE
LEADERSHIP AND ADVISORY GROUPS

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SENIOR FELLOW

Alliance for Lifetime Income & Head of the Retirement Income Institute; Scholars Advisory Group; and Vice President & Chief Economist, Bipartisan Policy Center

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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 the links below:

- Scholars Advisory Group
  https://www.protectedincome.org/retirement-income-institute/scholars-advisory-group/
- Retirement Industry Advisory Group
  https://www.protectedincome.org/retirement-income-institute/retirement-industry-advisory-group/

Both the SAG and the 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 over the past two years.

TYPES OF RESEARCH FUNDED AND SUPPORTED BY THE RETIREMENT INCOME INSTITUTE

In 2023, the Retirement Income Institute will continue funding and otherwise supporting five categories of scholarly work:

Original Scholarly Research (Proposed or Underway) in Academia: Original scholarly research papers present new research from scholars in the field that is empirical, experimental or otherwise evidence-based. 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 importantly, 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 are expressions of the author's original insights, ideas, analyses, and solutions relating to the topic and can reference related prominent writings. 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.

Institute Notes: Institute Notes are not full academic research papers but rather shorter papers that advance relevant ideas, perspectives and existing research of interest to the retirement income community.

The following is a complete list of scholarly works funded or supported by the Institute, organized according to the topics on the Institute's 2022 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.

ORIGINAL RESEARCH

Ashton, Bruce and Reish, Fred
"The Retirement Income Challenge in 401(k) Plans: Overcoming Legal Obstacles"

Many participants in 401(k) plans would benefit from guaranteed retirement income to protect them from risk factors, such as underestimating how long they will live, overestimating the rate at which they can spend their retirement savings without the risk of running out of funds, investment risks, cognitive impairment risks, and inflation, as well as the seemingly contradictory risk of being too frugal with their retirement savings. Prior to the SECURE Act, perceived fiduciary liability and practical constraints were barriers to the inclusion of guaranteed retirement income contracts in 401(k) plans. The enactment of the SECURE Act, with its fiduciary safe harbor, its expanded distribution option to address portability, and the requirement to educate participants on the retirement income their accounts will provide, has been a significant step in removing those barriers.

Hewitt, Julia D. and MacKenzie, George A. (Sandy)
"Insight: The Impact of Educational and Labor Market Discrimination on Wealth and Income Disparities"

The subject of our essay is the impact of educational and labor market discrimination on differences in income and wealth across races and ethnicities. The disparities across the racial and ethnic divides in income are striking (see table 1). Even more remarkable are the disparities in the wealth-to-income ratios (see table 2), and therefore in the disparities of wealth. According to the Federal Reserve's "Survey of Consumer Finances 2019" (Board of Governors of the Federal Reserve System 2019b), the top decile of households by income accounts for 46 percent of total income, but that same top decile by net worth holds 76 percent of the country's total net worth. Studies of the impact of racial discrimination on households normally focus on its impact on income, probably because the effects of discrimination in education and in labor market opportunities affect income before they affect wealth. In our essay, however, we first address the issue of the greater disparities that coexist with wealth. We find that these disparities are, at least in part, the result of influences that are not necessarily the direct result of racial discrimination. In part 2 of the essay, we address the impact of educational and labor market discrimination on income.

Cruz, Jeff
"Barriers and Opportunities for Latinos to Retire with Lifetime Income"

There are three main sources for a guaranteed lifetime income: First, Social Security Administration (SSA) benefits cover nearly all workers and are adjusted for inflation. Next, defined benefit (DB) pension plans are offered to fewer and fewer people, but still represent another important source of guaranteed lifetime income for tens of millions of families. And third, Americans are increasingly being auto-enrolled into or are opting to use defined contribution (DC) plans, like 401(k)s or individual retirement accounts (IRAs), to accumulate retirement savings to supplement Social Security benefits. Individuals then have to make the complex decision on how to spend down their assets, with the option to purchase a wide variety of annuity products to guarantee a lifetime income stream. This essay examines barriers and opportunities for Latinos to increase their retirement security through increasing guaranteed lifetime income.

Finke, Michael and Pfau, Wade
"Managing Market Risks in the Pre-Retirement Years Using Defined-Outcome Investments Executive Summary"

Through the use of financial options, an institution such as an insurance company or an asset manager can construct a range of investment outcomes tailored to the needs of a specific investor. The recent historic bull market for stocks allowed many pre-retirees to approach or even exceed their retirement saving goals before the date they planned to stop working. Newly retired investors, or those near retirement, might seek an investment approach that offers greater control over their investment risk. A traditional investments approach uses a portfolio of stocks and bonds, but there are other approaches that could be better suited to an investor's planning goals. Structured investments allow an investor to trade large gains for the avoidance or reduction of losses. Traditional portfolios cannot provide the same protection as a structured financial product provides. To understand the tools that financial engineers use to create a customized, risk-protected portfolio, we provide a few basic facts about the use of financial options.

Finke, Michael and Pfau, Wade
"Managing Market Risks in the Pre-Retirement Years Using Defined-Outcome Investments"

How should a 60-year-old pre-retiree invest their nest egg if they hope to retire in five years? The recent historic bull market for stocks allowed many pre-retirees to approach or even exceed their retirement saving goals before the date they planned to stop working. Newly retired investors, or those near retirement, might seek an investment approach that offers greater control over their investment risk. A traditional investments approach uses a portfolio of stocks and bonds, but there are other approaches that could be better suited to an investor's planning goals.

Through the use of financial options, an institution such as an insurance company or an asset manager can construct a range of investment outcomes tailored to the needs of a specific investor. An investor might want to preserve their recent stock market gains after a historic bull market, or they might want to reduce the possibility that they might need to either work longer or to cut back on their expected lifestyle in the face of investment losses. Structured investments allow an investor to trade large gains (which may have little impact on a retiree's lifestyle) for the avoidance or reduction of losses. Traditional portfolios cannot provide the same protection as a structured financial product provides. The use of structured investments to produce better outcomes for retirees has been explored by financial economists in the academic literature. Nobel Prize laureates Robert Merton and Myron Scholes found that structured investments "can be used by investors to produce patterns of returns which are not reproducible by any simple strategy of combining stocks with bonds" (Merton, Scholes, and Gladstein 1982, 1). Customizing investment returns through the use of financial options allows investors of varying risk tolerances, and varying tax brackets, to select a more optimal range of outcomes than traditional investments alone can provide.

Super, Nora and de Cervens, Jeanne
"New Approaches to Finance Long-Term Care Costs in Retirement"

This essay expands on the third area to identify new approaches to finance LTC expenses in retirement, and proposes several solutions to expand access to insurance to lower the risk of LTC costs in retirement.

Biggs, Andrew G.
"Retirement Preparation: Differences by Race and Ethnicity"

The murder of George Floyd is one of many recent events that have led to a renewed focus on pervasive racial inequalities in the United States. The social and economic inequalities that divide Whites, Blacks, Hispanics, and other races during their working years carry through into retirement, with White retirees possessing dramatically higher incomes and assets than retirees of other races. Total retirement incomes—which include Social Security benefits, pensions, the drawdown of retirement account balances and other savings, and welfare benefits paid by governments—reflect the inequality of incomes between races that are seen throughout Americans' working years. Investments approach uses a portfolio of stocks and bonds, but there are other approaches that could be better suited to an investor's planning goals. It is less clear, however, how policymakers should interpret these patterns. One possible explanation is that Black and Hispanic households fail to save adequately during their working years, due to a lack of access to retirement plans, lower levels of financial literacy, or other reasons. Another possible explanation is that Black and Hispanic households do tend to save adequately, whether benchmarked by theoretical economic models or practical financial planning tools, but that their lower levels of lifetime earnings result in low incomes both while working and in retirement. Policy responses to the former explanation may focus on expanding opportunities and incentives to save, while policy responses to the latter explanation may focus on changes to Social Security or other retirement programs to better protect against poverty in old age. Neither category of policy responses is exclusive, though, nor does either rule out a range of other policies designed to equalize differences in preretirement earnings between different races. Nevertheless, clarifying the reasons for low incomes in retirement for Black and Hispanic households creates a more accurate picture of the challenges facing different groups of Americans and the policies that might best help them surmount these challenges.

Sprick, Emerson
"Insight: Lump Sums vs. Annuities: Different Effects on Saving Intentions"

Research findings by Daniel Goldstein, Hal E. Hershfield, and Shlomo Benartzi suggest that pre-retirees are better able to imagine their projected wealth in retirement when those projections are presented as lifetime monthly income rather than as lump sums. Among pre-retirees with less than $1 million in projected retirement wealth, those who think of their retirement wealth as a monthly income are more likely to save at a higher rate than are pre-retirees who consider their wealth only as a lump sum. The reason for this difference is likely that pre-retirees can more easily compare projected monthly income to their current budget, especially with regard to expenses billed monthly, such as rent or mortgage payments, car payments, and utilities. As a result of these findings, the authors suggest that financial professionals and retirement plan providers should focus on monthly income projections more than on lump-sum projections when consulting with pre-retirees.

Heye, Chris
"Aging, Cognitive Decline, and Financial Decision-Making"

Increasingly longer lifespans present new challenges and risks for older adults and their families. One such risk is cognitive decline, a serious issue that leaves older adults both susceptible to making suboptimal financial decisions and vulnerable to financial exploitation and abuse. Researchers have consistently found a strong relationship between healthy executive functions and good financial decision making. The significance of healthy executive functioning suggests that family members and financial professionals alike need to be on the lookout for signs of confusion, disorganization, impulsivity, and disorientation. If any such symptoms are present, these observers need to adjust their actions and recommendations accordingly. Importantly, someone with executive function deficiencies is unlikely to be able to complete a conventional risk tolerance questionnaire with any degree of reliability, and the results of any such questionnaire could in fact generate investment recommendations that are highly inappropriate.

Friedberg, Leora and Webb, Anthony
"A Primer on Annuities"

Both academic economists and financial professionals emphasize the value of annuities for households that need to manage risks during retirement. Yet, the types of annuity products that they consider, and the risks that those products help manage, are vastly different. We demonstrate how to incorporate features of real-world annuity products into economic models, with the goal of stimulating academic research, and we elucidate the economic consequences of real-world annuity products for financial professionals, with the goal of facilitating an appropriate match of product features to household needs.

Sabelhaus, John
"The Changing Nature of Protected Income in Retirement"

The share of US workers covered by a traditional employer-sponsored pension plan has declined dramatically over the past few decades. According to Form 5500 filings (US Department of Labor 2021), in 1975 roughly 75 percent of workers included in private pension plans were in traditional defined benefit (DB) plans, with 25 percent in defined-contribution (DC) plans. By 2019, even though the total number of pension plan participants had roughly tripled, the fraction participating in DB plans had fallen to less than 25 percent, and the absolute number of participating workers in DB plans had declined. Even some public sector jobs—once the bastion of the traditional DB pensions—are seeing shifts in coverage, especially for newly hired employees (National Association of State Retirement Plan Administrators n.d.).

Blanchett, David and Finke, Michael
"Welfare Improvements from Default Annuitization in Defined Contribution Plans"

Most American workers save for retirement in defined contribution (DC) plans using default investments, primarily target-date funds. Adding annuities to a default investment offers two potential benefits over retail annuities: First, passive acceptance of defaults will likely result in an increase in the percentage of workers who receive guaranteed lifetime income. Second, DC participants, and especially those participants who invest in defaults, may not live as long as retail annuity buyers, resulting in a mortality pool that allows lower fair annuity pricing. We estimate that the average DC participant has a longevity that is about two years less than the average retail annuity buyer. The more-attractive mortality pool of DC participants would result in annuity income that is 7.4 percent higher for women and 2.7 percent higher for men. Respondents who indicate a preference for investing through defaults exhibit characteristics associated with expected longevity that is lower than that of average DC participants. This suggests an additional pricing improvement to annuities that are placed in investment defaults. Welfare analyses demonstrate that a risk-averse woman with $500,000 of retirement savings who invests in a default could increase her total welfare in retirement by 18.8 percent upon annuitizing 25 percent of her wealth and by 35.0 percent upon annuitizing 50 percent of her wealth, versus not annuitizing.

Sprick, Emerson
"Insight: The Significance of Choice Architecture in Social Security Benefit Claiming Decisions"

These articles suggest that the way that the question of when to claim Social Security retirement benefits is framed can significantly influence pre-retirees' decisions. The authors show three effective frames and their results: (1) Simply describing monthly benefit amounts if claimed at age 66 and if claimed at age 65 or age 67 leads to later claiming than the break-even framing used by the Social Security Administration (SSA). (2) Anchoring the claiming decision at later ages delays when pre-retirees expect to claim benefits. (3) Suggesting to pre-retirees that they consider a checklist of reasons they might delay claiming benefits before they consider a checklist of reasons they might claim early can significantly delay when they expect to claim benefits. Delaying benefit claiming would be beneficial for most—but not all—pre-retirees. The two articles this Insight considers suggest that using a lifestyle-informed life expectancy calculator to tailor the framing can help even those who should claim early make better decisions.

Wendel, Stephen
"Race/Ethnicity, Saving, and Post Retirement Outcomes"

This paper seeks to summarize the existing literature on racial and ethnic differences in retirement outcomes, starting with preretirement saving behavior and its effects on postretirement standards of living and happiness.

Xu, Mengyi, Alonso-García, Jennifer, Sherris, Michael and Shao, Adam W.
"Longevity Risk and Long-Term Care: Annuities, Long Term Care Insurance, Bequest, Housing and Liquidity"

We study the impact of housing wealth and individual preferences on demand for annuities and long-term care insurance (LTCI). We build a multistate life-cycle model that includes longevity risk and health shocks. The preference is represented by a recursive utility function that separates risk aversion and elasticity of intertemporal substitution (EIS). When health shocks are considered, a higher level of risk aversion lowers the annuity demand, whereas a lower level of the EIS has the opposite effect. The impact diminishes with a weaker bequest motive, more liquid wealth, access to LTCI, or presence of home equity, all of which increase the demand for annuities. Annuity demand increases more significantly in the presence of home equity when LTCI is not offered in the market. The presence of home equity has a crowding-out effect on LTCI demand, and the effect is strengthened by a lack of bequest motives or a lower degree of risk aversion. The cash poor but asset rich may demand more LTCI coverage than their renter counterparts to preserve bequests. When both life annuities and LTCI are available, we find that the product demand is robust to changes in risk aversion and the EIS, providing insights into product designs that bundle annuities and LTCI.

Blanchett, David and Finke, Michael
"Lifetime Income Guarantees Aren't Free: Understanding the Value of Lifetime Income Insurance"

In this research brief, we provide an overview of annuity products that provide a lifetime income benefit. We demonstrate that the lifetime income guarantee offered through GMWB insurance takes away the risk of outliving savings for retirees who receive lower than expected investment returns. By paying insurance premiums, a retiree who experiences a bear market is able to avoid the need to cut back on lifestyle spending and the anxiety of facing a higher risk of failure. We also show that compensation paid to advisors who sell annuities that offer lifetime income protection is often less than the present value of advisor compensation on managed investment portfolios that do not provide protection against the risk of outliving savings.

Sprick, Emerson
"Insight: Cognitive Ability, Irrelevant Information, and Other Contributors to Financial Mistakes"

These two articles outline the possibilities that researchers have explored to understand why consumers make suboptimal financial decisions. The articles find significant support for the hypothesis that cognitive ability, or general intelligence, plays an important role, as does the influence of social networks and other information that might seem to be irrelevant to financial decisions. The authors suggest that financial education often fails to promote better decision-making and that regulatory efforts have not succeeded in consistently improving decision-making, which complicates efforts by the government to help Americans achieve better financial outcomes.

Blanchett, David
"What Helped Participants Stay the Course in 2020?"

This research explores participant trading activity during 2020 for 730,533 participants, with data obtained from Prudential Financial, Inc., with a specific focus on how allocating to a product that provides guaranteed lifetime income is related to participant trading. We find that participants using any type of professionally managed portfolio solution were significantly less likely to trade in 2020 than were self-directing participants. Among participants who self-directed their accounts and who traded in 2020, older participants made changes that were the most significant.

These participants were also significantly less likely to use a professionally managed portfolio option, which suggests that those participants who could benefit the most from professional investment management are not the ones receiving it. Participants who were defaulted in a multi-fund professionally managed portfolio traded less than those who were defaulted in a single multi-asset fund professionally managed strategy (e.g., a target-date mutual fund). While the exact reason for this effect is unclear, a potential explanation could be that the diversification benefits of the multi-fund strategy are more apparent than the benefits for a single multi-asset fund strategy (i.e., the participant would log in and see a fund portfolio with eight or more funds versus holding a single target-date fund, which would appear to be more like a black box). Older participants (ages 55–70) who had higher allocations to an annuity that provided guaranteed lifetime income were less likely to trade during 2020. This suggests that guaranteed (or protected) income products have the potential not only to simplify the retirement income decision process, but also to improve participant trading behaviors.

Mitchell, Olivia S., Hurwitz, Abigail and Sade, Orly
["Testing Methods to Enhance Longevity Awareness"]

Many people do not understand the concepts of life expectancy and longevity risk, potentially leading them to under-save for retirement or to not purchase longevity insurance, which in turn could reduce wellbeing at older ages. We investigate alternative ways to increase the salience of both concepts, allowing us to assess whether these change people's perceptions and financial decision-making. Using randomly assigned vignettes providing subjects with information about either life expectancy or longevity, we show that merely prompting people to think about financial decisions changes their perceptions regarding subjective survival probabilities. Moreover, this information also boosts respondents' interest in saving and demand for longevity insurance. In particular, longevity information influences both subjective survival probabilities and financial decisions, while life expectancy information influences only annuity choices. We provide evidence suggesting that many people are simply unaware of longevity risk.

Bonyuet, Derrick
"Insight: Annuity Demand at Retirement: Rational and Behavioral Perspectives and Procrastination Factors"

The goal of this Insight is for retirees and their financial advisors to understand what drives the demand for annuities at retirement, under what conditions annuities can serve to enhance consumers' welfare, and what rational and behavioral factors come into play when purchasing annuities. An annuity is an insurance contract where the purchaser (the annuitant), can receive from the insurer a stream of payments in exchange for an upfront premium. The three articles covered in this Insight connect existing research on annuities and extend the findings to help understand why some people do not follow this approach. This is also known as the "annuity puzzle."

Murguía, Alejandro and Pfau, Wade D.
"Quantifying Retirement Income Beliefs and Preferences to Determine a Retirement Income Style"

The nature of risk changes after retiring, and this realization has spurred the development of retirement income planning as a distinct field within financial services. Wealth management has traditionally focused on the accumulation of assets. This accumulation mindset has dominated financial services and public policies with a focus on getting people to save and invest. Household investing has been guided by Modern Portfolio Theory, a framework developed by Harry Markowitz that uses portfolio diversification to seek the highest risk-adjusted returns for investment assets by considering their characteristics related to expected return, volatilities, and correlations. This framework focuses on assets only; it does not provide a link to funding household liabilities. Whether this same accumulation mindset should continue post retirement is a source of ongoing debate and disagreement. Maintaining a diversified investment portfolio to spend from in retirement is an option, but other options also exist that may better resonate for different individuals - at least when considering funding for core retirement expenses. We believe it is important to view retirement within a larger context - that is, how to fund household spending and manage new retirement risks. It is important to create a framework which focuses on the unique characteristics of retirement to align individual preferences for retirement income with the strategies used to provide that income.

Murguía, Alejandro and Pfau, Wade D.
"How Retirement Income Preferences Inform Retirement Income Styles"

The value of a common framework to help individuals and their financial advisors develop strategies for managing retirement income is becoming more apparent as the complexity of how best to fund retirement grows. There is mounting evidence that defining retirement income styles as a combination of preferences and then matching strategies to these styles offers a compelling way forward to better align individuals with retirement income strategies that are uniquely suited to their circumstances. This paper explores the explicit link between retirement preferences and retirement styles, and then documents how these styles link to strategies. The development of the Retirement Income Style Awareness Matrix (RISA® Matrix) tears down the barriers to shared understanding with a systematized way for individuals and advisors to quickly understand whether they are speaking the same language and to find retirement income strategies best aligned with the preferred style. We examine the four broad investment strategies that compromise the RISA Matrix: Total Return, Income Protection, Risk Wrap and Time Segmentation and discuss the application of these approaches to ensure that advice for funding retirement is offered that resonates with clients.

Hussain, Insiya
"Insight: Individual and Household Influences on Financial Decision-Making"

This Insight helps retirees and financial advisors better understand key individual and household determinants of retirement savings and financial decision-making. The three articles covered in this Insight examine: (a) how individuals react to lump-sum wealth versus equivalent monthly incomes, (b) the dynamics of financial decision-making in couples, and (c) the role of medical expenses in savings decisions among the elderly. Together, these articles can help financial decision-makers and their advisors develop greater awareness of key factors driving retirement investment decisions and better plan for the future. For instance, policymakers and financial institutions can use this insight to present retirement information to people in a way that encourages greater savings, to project how couples are likely to save and invest, and to plan retirement savings based on expected medical expenses in old age.

Butler, Dr. John C.
"Insight: New Takes on the Annuity Puzzle: The Importance of Framing Longevity with Clients"

In general, asking clients to think about whether they will be alive by – as opposed to deceased by – a given age will lead to longer estimates of expected lifetime.
• Ask clients to consider the state of their

personal health and lifetime estimate before talking about purchasing an annuity.

- When asking for estimates of ages under 80, ask client the chance they will be alive by age X; for age estimates over 80, ask client for chance they will be deceased by age X.

- There is also evidence that personal information about health state matters more than publicly available demographic data when estimating life expectancy highlighting the importance of talking with clients rather than using an actuarial approach.

Johnson, Travis L. PhD
"Insight: New Takes on the Annuity Puzzle: The Importance of Framing Longevity with Clients"

Retirement investors can combine traditional investments in stocks and bonds with a position in annuities to achieve the best of both worlds: longevity insurance from annuities and upside, emergency withdrawals, bequests, and personalized payout paths from traditional investments. These combination portfolios can be implemented in numerous ways, such as offering annuity options in defined-contribution (DC) plan selections, mixing DC plans with defined-benefit plans for very late in life (e.g., age 85 and older), or expanding the social security program.

Murguia, Alejandro and Pfau, Wade D.
"Risk Tolerance Questionnaires and Retirement Income Concerns"

Pre-retirement and post-retirement financial planning require different approaches, as retirees face the frightening reality that – unless they plan wisely – they may outlive their money. Especially when it comes to determining risk tolerance. This paper asks: how effective common risk tolerance questionnaires (that emphasize short-term market volatility) are when it comes to addressing the concerns that individuals have in retirement and is there a better way? We explore how the Retirement Income Style Awareness® (RISA®) Profile framework moves beyond investment focused risk tolerance questionnaires and does a better job of capturing individual attitudes and concerns regarding risks related to retirement planning, such as longevity, health care spending risk, general liquidity needs, and lifestyle spending. Finally, we examine the ways in which this understanding creates a common language for clients and their advisors, making sense of the many competing views about retirement. This shared understanding of individual preferences can inform which of the four broad investment strategies: Total Return, Income Protection, Risk Wrap and Time Segmentation are most aligned with individual preferences and will best support their financial and psychological needs for retirement.