Retirement in the Future:

Focusing on the Payout Period

by Anna M. Rappaport and Steve Siegel

Retirement programs vary in their methods of paying benefits, in the choices they offer participants with regard to benefit payout and in their communications about payouts during retirement. The Society of Actuaries has conducted research on how individuals invest their funds during retirement and the impact of economic change on that investment. The Society of Actuaries Retirement 20/20 initiative has explored the payout period and how different signals impact retirement decisions and behavior. This article looks at issues with regard to structuring payouts, provides some comparative information about practice in and outside of the United States, and draws on Society of Actuaries research and related Retirement 20/20 work. It also discusses some of the policy issues likely to be raised in the years ahead.

INTRODUCTION

To structure a successful organization of the retirement income system for the future, an important aspect to consider is the payout period as well as the ingredients needed for effective benefit delivery and sustained income after retirement. During the time when many Americans were covered by traditional defined benefit (DB) plans, this was not a major concern, 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 income management during the postretirement period through annuitization or other options has become much more important. Although many individuals will say regular monthly income is a priority for them when asked, few choose to take a monthly income option when also given a choice of a lump sum. Because individual situations vary, availability of choices can be beneficial in a retirement income context. Yet, wherever there are choices, it is also important to structure defaults within the menu of options that will protect those who are passive or not well-informed.

Besides the impact of choices and defaults on the payout period, another factor to consider is that many retirees experience several, distinct phases in retirement including:

- An initial active period, which may include some work, and a variety of forms of other engagements such as travel and vigorous recreation
- A more limited period, where physical or mental limitations impose some restrictions on the individual
- A severely limited period, when a great deal of care and support are needed.

It is clear that how income is expended and the amounts needed can vary greatly during these periods. Earnings to supplement retirement income are most likely in the first period described above. Extra spending to pursue lifelong dreams and other activities is also most likely in the first period, while, on the other hand, additional expenditures for health and personal care needs are most likely to occur in the last period. In addition, individuals choosing special housing that provides support for health needs will encounter significant extra expenses for such housing.

STAKEHOLDER ISSUES RELATED TO THE FUTURE OF THE RETIREMENT SYSTEM AND FORMS OF BENEFIT PAYMENT

Stakeholders impacted by the payout period and forms of benefit payment include policy makers, employers, employees and financial services companies. The issues affect stakeholders in differing ways, yet are driven, to a large extent, by the interaction among them. Policy makers are likely to concern themselves with issues surrounding distribution and may well recommend and implement policy changes.[1] Employers are also likely to focus more in the future on what they are doing for the payout period, regardless of whether there are policy changes or not. New products are also likely to emerge, giving employers added opportunities and flexibility. As the defined contribution (DC) system matures, employees will have more responsibility for decisions even if there are no further system changes. Financial services companies will want to offer products that address the needs of other stakeholders. Key questions for each of these stakeholders are presented below.

Policy Makers

- How much choice should be allowed or encouraged, and what types of disclosures should be mandated?
- What should be permitted as default options, and what types of "nudges" would be effective and permissible?
- Should there be restrictions on the use of lump sums in primary retirement plans? Should spousal rights be protected when lump sums are used and how?
- What, if any, payment forms should be mandated and under what conditions?
- What age restrictions should there be on when retirement benefits are allowed to be paid?
- What requirements should be imposed to prevent excessive sheltering of funds from income taxes?
- What can be done to facilitate offering risk protection linked to DC plans, and to make it attractive for employers to offer employees access to group purchase of risk protection?

Employers

- How should employers provide feedback for policy discussions about the postretirement period?
- Given the trend toward DC plans, what considerations should go into an employer's decision or not to simply pay a lump sum and leave the management of assets postretirement to the employee?
- Should an employer offer education and/or advice to help its employees manage postretirement?
- How can an employer take advantage of group purchasing of risk protection products?

Employees

- How can an employee maximize the period of tax-deferral?
- What is the best way to manage funds postretirement, and how long do the funds need to last?
- Should an employee purchase an annuity or other financial product? If so, when, and what should be considered in the choice?
- How can an employee receive trustworthy, financial planning advice on proper investments and potential bequests?

Financial Services Companies

- What products do individuals want?
- What products are appealing to employers to include in employee benefit plans?
- How can companies overcome reluctance on the part of employees to make irrevocable decisions?
- What regulatory hurdles must be addressed to develop new products?

PRIMARY FORMS OF BENEFIT PAYMENT AT RETIREMENT

The Organization for Economic Cooperation and Development (OECD) paper, "Forms of Benefit Payment at Retirement," sets forth three main options (or combinations thereof) for the payout phase in order to allocate assets accumulated in DC plans. Definitions of the options are:[2]

1. *Lump sum*—A single payment
2. *Programmed withdrawals*—A series of fixed or variable payments whereby the retiree draws down a part of the retirement capital (and continued investment earnings thereon). Any amount remaining in the retiree's account at his or her subsequent death belongs to the estate and is paid to the retiree's family and other beneficiaries. If the retiree lives to an advanced age, there is a clear possibility (under some programmed withdrawal arrangements) of the payments becoming very small in the later years. Under other arrangements, there is the risk of the capital being completely exhausted before death. *Annuities certain* are a specific form of programmed withdrawals.

TABLE I

PRIMARY RETIREMENT PAYOUT OPTIONS AND FEATURES

	Provides Flexibility, Liquidity	Provides Protection Against Longevity Risk	Provides Bequest
Lump sum	Yes	No	Yes
Programmed withdrawal[1]	Yes	No	Yes
Life annuities	No	Yes	No

1. Programmed withdrawals are also called *phased withdrawals* or *allocated pensions* (e.g., in Australia) and *systematic withdrawals* by some U.S. authors.

Source: OECD, "Policy Options for the Payout Phase" by Pablo Antolin, September 2008.

TABLE II

EXAMPLES OF PROGRAMMED OR SYSTEMATIC WITHDRAWAL STRATEGIES AS CURRENTLY USED IN THE UNITED STATES

Spending Rule	Examples
Simple % of $ spending rule	Withdraw 3% of assets per year Withdraw $500 per month
Endowmentlike rule	Withdraw 5% of average of three prior years' asset value
4% or 4.5% rule	Spend 4% or 4.5% of total retirement savings in first year of retirement. Increase dollar amount by inflation rate each year thereafter.
Monte Carlo or other simulations	Model withdrawal rates simulating effects of changing investment returns; adjust spending accordingly
Tax-sensitive withdrawals	First withdraw assets from Roth savings or taxable assets subject to preferential capital gains tax rates. Postpone taxable pretax withdrawals.
Required Minimum Distribution (RMD) withdrawals	Spend only required minimum withdrawals from IRAs and other retirement plans once aged 70.5

Source: Gary R. Mottola and Steven P. Utkus, "The Retirement Income Landscape," Volume 34, December 2008, The Vanguard Center for Retirement Research, page 6.

3. *Life annuity*—A stream of payments for as long as the retiree lives. There are also life annuities with additional guarantees, with continued payment to the surviving spouse, with escalation of the benefits in payment, etc.

Table I provides a comparative overview of the main features of each of the options.

The strategies in Table II provide a range of methods for setting up programmed or systematic withdrawals. All mortality and investment risk remains with the individual. These methods can be used by individuals managing their own assets or with an advisor. None of them specifically take into account changing needs over time.

The only one of the systematic withdrawal options that is effectively used as a default under current U.S. practice is the required minimum distribution (RMD).

It should be noted that annuity purchase is irrevocable, whereas programmed withdrawals can be changed at any time. It is also possible to shift from programmed withdrawals to annuity purchase at any time, or on a staggered basis.

CURRENT DISTRIBUTION PRACTICES IN THE U.S. RETIREMENT SYSTEM: ROLE OF PUBLIC PROGRAMS, TAXES, DEFINED BENEFIT (DB) AND DEFINED CONTRIBUTION (DC) PLANS

Role of Public Programs: U.S. Social Security benefits are paid as a life annuity indexed for inflation. Benefits can be claimed between the ages of 62 and 70, and there is a substantial difference in the amount of monthly benefit depending on claiming age. Medicare benefits start at the age of 65, and they can be viewed as an indexed life benefit.

Role of Taxes: Funds in qualified plans—employer-sponsored programs and individual retirement accounts (IRAs)—accumulate tax-deferred. Employees contribute pretax dollars and investment income is also tax-deferred. A key part of distribution practice is to maintain tax-deferred status of funds as long as possible. Tax law sets forth the minimum requirements for withdrawal from tax-deferred funds through the RMD. Roth IRA programs allow an alternative for tax-preferred retirement savings. Posttax dollars are saved and investment income is tax-free.

Role of DB and DC Plans: Pension plans were established as income replacement and to help workers retire in an orderly fashion. In the past, DB plans that had normal payment choices of life income and survivor benefits were the primary base layer for private sector retirement plans. However, this has shifted so that DC plans are much more common. Traditionally, DC plans in the United States pay benefits as lump sums. Some offer installment payouts, life annuities or leaving the money in the plan as options. Most benefits are paid as lump sums and then often rolled over into a tax-protected account. Risk protection options cannot be directly linked to DC accounts in the current U.S. environment.

INTERNATIONAL PRACTICE

Table III presents examples of differing benefit payment methods used globally. At one extreme are plans that pay benefits only (or nearly always) as a lump sum. This is common in the United States. At the other extreme are plans that require benefits to be annuitized without any option. As well, combinations of particular options are often applied. For all of these, local practice will dictate the extent of involvement of the employer and its obligations.

GROWING GLOBAL POLICY FOCUS ON PAYOUT PHASE

There is a growing emphasis worldwide on the payout period. This topic was explored at the 2008 ERISA Advisory Council and was a recent area of focus for OECD. Retirement plan participants are likely to be more concerned about a secure income stream in light of the economic crisis. As a result, policy and practice are under study in many countries and change is likely. In countries where lump sums are the primary payout method, there is concern about whether pension assets are being spent too rapidly. In countries that mandate annuitization, there is concern about a lack of an individual's control over pension assets and the possibility of easing that requirement. Another factor to bear in mind is that tax treatment varies by country. OECD is focused on that issue, and a 2008 paper[3] provides an overview of the policy issues and recommendations.

THE IMPACT OF CHOICES, TIMING AND LITERACY IN THE RETIREMENT DECISION PROCESS

In some countries a variety of choices is common; in others, there is limited or no choice. When a lump sum is paid, the individual has the greatest choice of how to invest funds and, depending on the market, the individual can then choose to buy an annuity. Where choices are permitted, the situation is more complex because some decisions are irrevocable. Once an annuity is purchased, it is usually locked in. Other strategies can be changed over time. Also, from a purely financial management point of view, if annuities are to be purchased, it is better to spread the purchase over time. However, it may not be feasible to do this, and individuals may not be able to manage such a spread even if feasible.

How people will act when they have choices is influenced generally by what people know. Research has repeatedly shown significant gaps in knowledge about retirement. The authors' general observations from such research are that:

- Financial literacy needs improvement. Many people in the United States do not understand basic math including compound interest and percentages.
- Many individuals are short-term focused as they

TABLE III

VARIATION OF METHODS OF BENEFIT PAYMENT IN DIFFERENT COUNTRIES

Strategy Type	Countries	Comments
Lump sums only	Hong Kong (HK), India, Luxembourg, Philippines	Applies for Mandatory Provident Fund in HK, India, Philippines
Lump sum or programmed withdrawals	People's Republic of China, Indonesia, Malaysia	Programmed withdrawals can be provided through the plan.
Wide range of options	Australia, Brazil, Denmark, Japan, Singapore	
Lump sum or life annuity	United States (U.S.), South Africa, Greece, Spain, Switzerland	In U.S., lump sums dominate
Partial lump-sum option with mandated life annuity for balance	Italy, Portugal, United Kingdom (U.K.)	In U.K., programmed withdrawals allowed until the age of 75 and then annuitization is mandatory
Life annuity or programmed withdrawals	Argentina, Canada, Chile, Costa Rica, Norway	Costa Rica (mandatory plan aimed at replacing Social Security with minimum guarantee)
Life annuities only	Austria, Bulgaria, Croatia, Germany, Netherlands, Poland, Sweden	Bulgaria (mandatory second pillar), Germany (occupational pension plans)

Source: OECD paper "Forms of Benefit Payment at Retirement" by Pablo Antolin, Colin Pugh and Fiona Stewart, September 2008, pages 19-20.

plan for retirement. Retirement planning often does not include serious and deliberate analysis of life and financial issues.

- Lump sums are overvalued when compared to the present value of an equivalent income stream. The lump sum is often perceived to have a greater value because it represents a larger sum of money in a single amount than most people have dealt with previously.
- Many individuals are overly optimistic about expected returns on investments and the ability to manage investments. In addition, some individuals who can manage investments at retirement may not be able to do so later, particularly if they become incapacitated in some way.
- There is significant misunderstanding about potential life spans and their variability. It is not uncommon to overestimate the amount that can be safely withdrawn from a retirement account.
- There is a lack of understanding about financial products that are useful in helping to mitigate risk and when they might be most helpful. The Society of Actuaries' surveys indicate that the most commonly used risk-reduction strategy is to reduce spending.
- For many people, a great deal of change occurs during retirement as individuals pass through different phases. However, planning often focuses only on the immediate phase after retirement.

RISKS IN RETIREMENT

The risks in retirement are complex and interacting. Table IV draws heavily from the risk analysis developed by the Society of Actuaries in conjunction with its *Risks and Process of Retirement Surveys* conducted biennially from 2001 to 2009.[4] The results from the surveys provide information about how retirees view these risks and what is most important to them. This survey series and other related efforts indicate that there is considerable misinformation about risks. Any of these risks can have an immediate and significant impact on the payout period.

Several of the risks shown in Table IV can be

TABLE IV

RISKS FACING RETIREES AND COMMENTS ABOUT THEIR MANAGEMENT

Risk	Products and Approaches for Risk Transfer and Potential for Pooling	Comments
Outliving assets (Impact of this risk is most often at the high ages.)	Annuities, including joint and survivor annuities and deferred annuities commencing at higher ages such as 85 (longevity insurance). The OECD report focuses on programmed withdrawals and longevity insurance starting payments at the age of 85 as a good combination. DB plans often automatically provide life income. Risk transfer not needed if investment income without using assets exceeds expenses A few inflation-adjusted annuities are available, and annuities without inflation adjustment provide only partial protection.	Consideration of both spouses is needed in designing a strategy. At the age of 65, average life expectancy is 17 years for American men and 20 years for women. Thirty percent of all women and almost 20% of men aged 65 can expect to reach the age of 90. (*Source:* U.S. Life Tables.) Programmed withdrawals and bond ladders offer other strategies to produce long-term income, but not income guaranteed for life. Programmed withdrawals are more popular than bond ladders.
Loss of spouse (Impact can be at any age.)	Joint and survivor life annuities, life insurance Long-term care insurance helps protect assets that may be left to spouse.	Social Security offers a base layer of protection. For women, periods of widowhood of 15 years and more are not uncommon.
Cost of disability and long-term care (Can be any age but care most likely)	Long-term care insurance Continuing care retirement communities Medicaid pays for cost for many people without assets or income.	Nursing home costs can exceed $70,000 per year today. Care can be provided at home, in an assisted living facility, adult day-care center or nursing home.
Cost of acute health care	Medicare for those who are over the age of 65 Medicare supplemental insurance including employer-sponsored retiree health benefits	For early retirees, there is a major problem if they do not have employer coverage. Health reform may help.
Investment risk, inflation and interest rate risk	Investment strategies can reduce risk; some products provide minimum guarantees. Inflation-protected bonds Annuity products with cost-of-living adjustments	Strategies that work well when assets are being built may not work well during the period when assets are being used.
Inability to find job, loss of job	No way to pool on a longer term basis	Many individuals are thinking of working longer to address inadequate savings and loss due to market downturns, but it is not clear if that will be feasible.
Family members needing care	No way to pool	Situations vary with regard to the availability of family members to help.

TABLE V

WHAT HAPPENED TO DC ACCOUNTS AT RETIREMENT

Disposition	Percent
Multiple dispositions	9%
Lump sum, spent all	7%
Lump sum, spent some, reinvested some	11%
Lump sum, reinvested all	34%
Deferred distribution of entire balance	16%
Installment payments	6%
Annuitized entire balance	18%

Source: Figure S.1, Defined Contribution Plan Distribution Choices at Retirement, Fall 2008, Investment Company Institute.

pooled and transferred. There are other risks that are much less subject to risk transfer and/or pooling. These include the inability to find a job and premature retirement risk. About 40% of Americans end up retiring before they had expected to, often because of job loss, poor health or family issues.

The major concerns of retirees and preretirees were documented in the Society of Actuaries' *Risks and Process of Retirement Survey* series. Key findings of the surveys included the following:

- Preretirees are much more concerned about risk than retirees.
- There has been little change in the retiree perceptions about risk over the years.
- Preretirees became more concerned generally about risk between 2001 and 2003, not surprising in light of the September 11th events and the poor equity markets, but they have reduced their concern from 2003 to 2007.
- There was no similar significant shift in preretiree risk concerns from 2007 to 2009.
- Inflation and medical costs were the biggest risk concerns in the past. It is unclear what they will be in the future.
- Outliving assets is not a big concern.

The conclusions reached in the survey results are consistent with many other information sources indicating misinformation about risk and low-risk awareness. It complements information gathered through the work of behavioral economics on how individuals make choices.

INVESTMENT DECISIONS BY INDIVIDUALS WHO RETIRED WITH DC ACCOUNT BALANCES

A 2008 Investment Company Institute survey[5] provides insights into how households are using their accumulated balances. The median household financial assets of this group were $336,100, and 38% had $500,000 or more. The median age was 65. The study looked at what they did and what they said about what they did. Seventy percent of the respondents reported having a choice of distribution option, and 30% reported that they had no choice. The disposition of the accounts was reported as shown in Table V.

For amounts greater than $100,000, more than 30% of the balances were annuitized and more than 45% reinvested. The study offers insights into which types of respondents made different choices and why. Some of the comments made in the report include the following:

- The few retirees who spent their entire DC plan lump-sum distributions generally had received small balances.
- Retirees who received their distributions through either annuity or installment payments expressed a desire for regular income as their primary motivation.
- Retirees with sizable household financial assets and income typically postponed use of their plan balances either by reinvesting the assets in individual retirement accounts or deferring their distributions.
- When DC plan participants have more than one option for the disposition of their plan balances at retirement, they generally make thoughtful decisions.

This study does not indicate how successful the decisions were in the long run. That is, it is unknown how well people who retired with DC balances fared ten, 15 and 20 years after retirement. A particular area of concern is also how widows fared, as there are many older widows and there is often a decline in economic status at the time of widowhood.

The Society of Actuaries, LIMRA and InFRE conducted two studies in 2008 and 2009[6] to understand investment decisions by retirees with at least $100,000 in assets and the rationale behind those decisions. The 2009 study was a followup to the same respondents as the 2008 study to learn how the economic crisis had affected the respondents and their decisions.

The first study showed the following:

- 45% of the respondents were not receiving enough money from Social Security and DB pensions to cover basic living expenses, but there

was little interest in the purchase of annuities or guaranteed income products. Sixty-four percent of the respondents were receiving income from DB plans.
- 95% of the respondents were confident that their investments were being managed well.
- 40% of the respondents did not withdraw any money from their investable assets in 2007 (the prior year).
- The story was mixed with regard to planning, with some having done a great deal of planning and others very little. Three in ten had not considered how long-term care expenses would be paid.

The followup in 2009 indicated that overall, it is evident that the financial crisis has impacted aspects of the current mindset and financial outlook of these retirees. Retirees now:

- Feel less secure after the crisis
- Are less confident that they have saved enough for retirement
- Have become more conservative and less willing to take risk
- Are trying to control spending
- Are more likely to have a personal financial advisor.[7]

TAKING ACTION TODAY: RESPONDING WITH INFORMATION

Employers can support employees as they manage their distributions through offering an appropriate plan structure, making products available for group purchase and providing information resources. The nature of the information is dependent on where employees are in their career cycles.

Information Needed by Employees Not Yet Approaching Retirement Age

These employees need to understand how much they should be saving, their account balance and their progress toward reaching their retirement goal. They should also have information that builds expectations and promotes the idea that retirement assets need to generate income replacement. Emphasis should also be placed on promoting regular savings habits.

Information Needed by Near-Retirees

This is a critical time as some individuals will be making the most important financial decisions of their lives. Below are a number of messages and themes that the authors feel will support employees at this juncture of their careers as they prepare to embark upon retirement:

- Importance of having a longer term planning horizon
- Impact of earlier vs. later retirement including effect on Social Security, pensions and how long assets are likely to last, and a method to evaluate how this will affect them
- Variability and potential length of life span
- Information on how to translate lump-sum amounts into regular annual income and information about options that can be used to provide regular income
- For couples, information about survivor benefits and the needs of the survivor
- Importance of having a strategy for long-term care needs
- Understanding whether buying risk protection products would be appropriate
- Basics regarding investing in retirement and alternatives for obtaining advice.

LONGER TERM POLICY ISSUES: RESPONDING WITH DEFAULTS, OPTIONS AND MANDATES

As discussed earlier, there are in theory a variety of different forms of benefit distribution, and they can be offered on a mandatory basis or as a default, or be an option that the participant chooses. Defaults and options are a key part of plan structure, can come in many different forms and can be determined by law or set at the option of the plan sponsor. The sponsors' concerns include fiduciary liability, and one of the issues in setting a default is whether it generates any added liability or requirements. Defaults have received much attention in some areas, but little attention has been paid to payout period defaults. Safe harbors are available in the United States for investment defaults but not distribution options. Defaults are an area where there is a significant possibility that there will be policy change and the future may not look like the past. This is one of the areas that has been explored by the Society of Actuaries' Retirement 20/20 initiative. Here are theoretically possible approaches to default options for the payout period, although policy change would be needed to enable some of them in the United States:

- Mandated payment method—No choices are available. Social Security benefits use the default as the only option.
- Mandated default option of life income, with the potential to offer choice of other options—like the DB structure in the United States
- Range of safe harbor choices that can be used as defaults—DC plan benefits are generally paid as

lump sums. Plan sponsors could be permitted to offer a range of default options and be protected from fiduciary liability.

- Mandate that certain options be included, but not that they be the default option; for example, a plan could be mandated to include an installment payment or life annuity.
- Permitted choices—Legislation could specify a range of permitted choices for payout options.
- Open option—Permits any choice that an individual wants to make; the existence of an IRA rollover option in the United States is effectively an open option since it enables individuals to choose virtually any market payout option within a tax-protected plan.

A multipronged approach to the payout period is needed with a more active role for the employer in supporting DC distributions, matching of products to consumer preferences, education of the individual and the updating of regulation regarding the payout period. ◀

LOOKING AT THE FUTURE: RECOMMENDATIONS FOR THE PAYOUT PERIOD[8]

- *Rethink default distribution options in DB and DC plans.* While DB plans pay income, today lump sums are the common default in DC plans, and life income options are often not available. While there has been a great deal of innovation in plan design over the past decades, there has not been much innovation in payout management. New possibilities for options and defaults should be encouraged. Public discussion is needed to reach consensus on what should be allowed, what should be required and what should be protected in a safe harbor.
- *Enable use of DC funds for risk protection.* Change DC regulatory structure so that 401(k) funds could be a retirement risk protection account and, after retirement, balances could be used to purchase a variety of risk protection options, either through the plan or through employer offerings on an advantageous basis. Some of the choices should include lifetime income with survivor protection, with or without inflation protection, supplemental health insurance and long-term care benefits.
- *Restructure or eliminate RMD requirements.* As they exist today, RMD requirements often become the DC distribution default, and they can be a barrier to guaranteed life income and other desirable distribution options.
- *Explain trade-offs.* It is clear that many individuals do not make well-informed choices about retirement and the management of funds postretirement. The trade-offs involved in the choice of a strategy are extremely important and not easy to understand. Better information can be made available to explain the range of options available and the trade-offs implied by choices. It should also be remembered that some choices are irrevocable when made, while others can be changed later.
- *Encourage communication focused on life or at least long-term income.* It is important to focus on pension resources as the path to income in retirement. The plan, the information communicated to the participants, and supporting resources all provide signals that can propel the participant toward or away from regular income.
- *Unify and rationalize the regulatory environment.* While this article is not about regulation, it is clear that good ideas will not work without a reasonable regulatory environment. Currently, there is a huge mass of complicated regulations that govern annuities and pensions. In addition to regulating the employer and the financial services company, income tax rules impact when it is attractive to use a risk protection product and when not. They complicate what would otherwise be rational strategies. Unified and balanced regulation would be important to opening the way for simple and logical solutions.
- *Facilitate group purchasing of financial products for voluntary purchase.* This would enable employees to obtain a better deal and be assured that the design and provider of the product has been subject to due diligence. If an employer does not want to offer group purchase of annuities directly, it can work with a third party to hold funds until an annuity is purchased.

CONCLUSION

Managing resources and income in retirement is a very important part of the total retirement income picture for the future. At the time of leaving work, particularly for retirement, key decisions must be made that will affect the disposition of retirement funds, particularly DC plan assets. Retirees face many risks, often without perfect solutions or enough resources to address them all. Defaults are an important influence whenever people act. Yet today most of the focus on defaults has been on areas other than the payout period. A multipronged approach to the payout period is needed with a more active role for the employer in supporting DC distributions, matching of products to consumer preferences, education of the individual and the updating of regulation regarding the payout period. ◀

Endnotes

1. This was a topic for the 2008 ERISA Advisory Council and the topic of a recent paper on policy by OECD.
2. OECD, "Forms of Benefit Payment at Retirement" by Pablo Antolin, Colin Pugh and Fiona Stewart, September 2008.
3. P. Antolin, "Policy Options for the Payout Phase," OECD Working Papers on Pensions and Private Insurance Number 25, OECD.
4. Society of Actuaries, 2007. The reports from the risk survey are at www.soa.org/ccm/content/areas-of-practice/special-interest-sections/pension/research-thinking-ahead/post-retirement. Note that there are five separate reports—a full report on the survey and four reports that focus on specific portions of the results.
5. Defined Contribution Plan Distribution Choices at Retirement, Fall 2008, Investment Company Institute.
6. Society of Actuaries, LIMRA and InFRE, "Will Retirement Assets Last a Lifetime? " 2008 and "What a Difference a Year Makes," 2009.
7. Society of Actuaries, LIMRA and InFRE, "What a Difference a Year Makes," 2009.
8. These recommendations were included in testimony by Anna M. Rappaport to the ERISA Advisory Council in September 2009.

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