

ANNA RAPPAPORT CONSULTING
STRATEGIES FOR A SECURE RETIREMENTSM



**Thinking About Flooring:
Perspectives of an Actuary**

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October 2013



Agenda

- The Context for Flooring
- The Flooring Discussion
- Planning for Retirement: Research
- Advisor and Employer Perspectives
- Methods of Generating Retirement Income
- Issues in Selecting an Option
- Barriers to Flooring
- Value of Competition
- Practical Considerations
- Regulatory Big Picture

PS: Income options are reviewed in a new paper developed jointly by the Society of Actuaries and the Stanford Longevity Institute. The paper was discussed in the RIIA September Webinar presentation by Steve Vernon. RIIA Members – login to your account and select the “vlc webinars” tab.



The Situation Today: The Context For Flooring

Shift to DC Changes the Conversation

- Individuals need to find own solution
 - Most have multiple jobs
- Employers need to decide what role if any
 - Should they create an income culture?
- Advisors: will they focus on income?
 - Many need to move beyond AUM model

More assets in IRAs than 401(k) plans

Paths to income

- On own
- Through employer
- Working with advisor



Americans Nearing Retirement: Percentages of Augmented Wealth by Quintile (in U.S. dollars)

Wealth Quintile and Est. Wealth	First \$93,500	Second \$294,000	Third \$543,000	Fourth \$904,000	Fifth \$2,000,000
Value of Social Security Benefits	82%	58%	41%	28%	14%
Net Housing Wealth	8	18	22	23	23
Value of DB	3	9	14	19	15
Retirement Assets	3	8	11	15	18
Other Assets	4	8	11	15	11

Source: Figure 16, Investment Company Institute, The Success of the U.S. Retirement System, 2012

Note: Calculations exclude the top and bottom 1% of the population, quintiles established based on 2006. The value of DB and Social Security income streams is included. Health and Retirement Study data, analyzed by Gustman, Steinmeier, and Tabatai, underlies this analysis. Includes households with at least one member born between 1948 and 1953

Note: Percentages may not add to 100 due to rounding.



The Flooring Discussion

- Start with Social Security strategy
- DB elections
- Reduce income needed: Expense management
 - Pay off mortgage?
- Use assets to produce income
 - Preserve assets and use income only?
 - Annuitization?
 - Investment strategy and payout plan?



Planning For Retirement: Research

Summary of SOA Risk Survey Results

- Planning horizon too short
- Many people do not understand longevity
 - Particularly variability
 - Tend to underestimate longevity
- People who live longest will have problems
- Gaps in understanding – death of spouse
- Gaps in understanding – impact of working longer
- Little focus on risk management products

Also consider

- Major problems with math literacy
- Framing and nudges matter



Advisor Perspective: Big Picture

- Focus: Asset Maximization or Focus on Lifetime Income and Spending?
- How does income fit into mindset?
- How am I paid?
 - Fees, commissions, AUM, salary, or a combination
 - Do my economic interests align with those of the client?
- Social Security claiming/managing spending/paying off mortgage?
 - Big decisions for clients: How should I help?
 - How does that fit into my business?
- What alternatives do I bring into the discussion?
 - How do regulatory constraints/licensing affect this?
- When do I discuss income issues?



Employers Offering Solutions for Retirement Income in 2012 and Planning to Offer in 2013

Solution for Retirement Income	% Already Offering	% Not Offering Likely to Offer
On-line modeling tools or mobile apps to help participant determine how much they can spend each year in retirement	61%	58%
Distributions from plan/automatic payment (participant elects an automatic payment from the plan over an extended period of time)	37	24
Within the plan: professional management (managed accounts) with drawdown feature (managed account provider allocates participant assets for income and manages the annual amount paid from the plan)	19	26
Facilitation of annuities outside of the plan as options for plan distributions	13	15
Within the plan: managed payout funds (those with a specific annual target payout percentage with no guarantees)	12	19
Within the plan: annuity or insurance products as part of fund lineup (e.g., minimum annuity payout, fixed annuity, other)	10	14
Ability to transfer assets to a defined benefit plan in order to receive an annuity	3	5

Source: AonHewitt 2013 Hot Topics in Retirement: Focusing on Financial Wellness Results reflect large employers



Methods of Generating Retirement Income

Features	Income Annuity	Other Products with Guarantees	Withdrawals
Guaranteed income for life	Yes	Yes, but at lower level than in income annuity	No
Mortality leveraging	Yes	Some	No
Liquidity/access to funds	Not in most products	Yes, within limits	Yes
Remaining account value goes to heirs on death	Depends on type of annuity selected	Yes, after fees for guarantees	Yes
Owner can control funds in the account while income is being paid out	No	Yes, within limits	Yes

Need more focus on and understanding of the tradeoffs

Source: Adapted from Society of Actuaries 2012 Decision Brief: Designing a Monthly Paycheck for Retirement

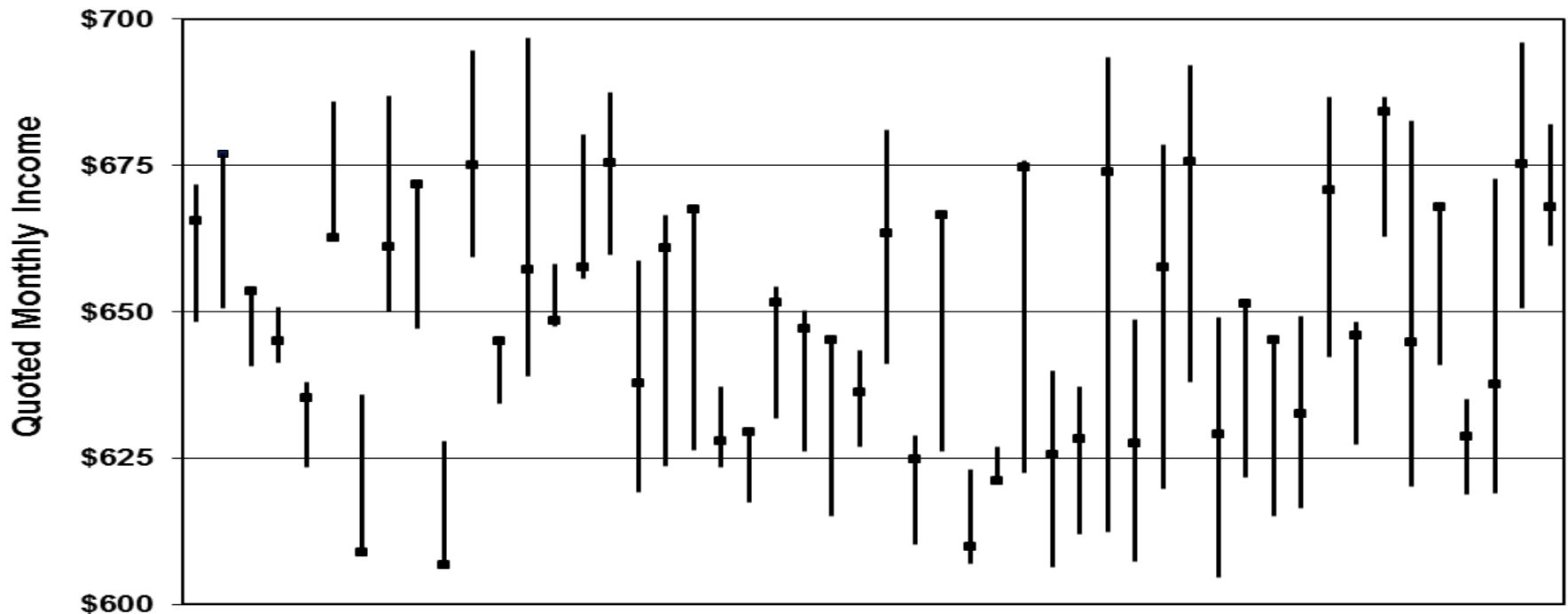


Issues in Selecting an Income Option

- Portfolio thinking
- Avoid the need for an all or nothing decision
- Effective purchasing -- consider competitive pricing, fee levels, economic viability for all parties
- Understanding of product options/trade-offs
- Value of competition

Why Meaningful Competition is Essential

Sampling of Income Solutions® Quotes (\$100,000 Deposit):
Quote Range versus Carrier Quotes for One Year



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Barriers to Flooring

- Mindset
- Negative perceptions and press
- Too short a planning horizon
- All or nothing decision
- Employer concern about fiduciary and legal liability
- Conflicts of interest
- Financial advice steering individuals away from annuitization
 - Very strong disclaimers on websites
- Failure to fairly present broad range of options
 - Confusion about products



Barriers to Solutions for Retirement Income Reported by Large Employers

Barrier	% of Employers
Operational or administrative concerns	54%
Fiduciary issues	51
Waiting to see market evolve more	50
Participant utilization concerns	44
Difficulty with participant communications	34
Not interested in offering solutions for income at this time	27
Portability concerns	23
Cost barriers	23
Preference for participants to leave the plan at termination	11

Source: AonHewitt 2013 Hot Topics in Retirement: Focusing on Financial Wellness



Practical Considerations

- Aggregation of resources
- Product options
- Taxation
- Compliance and legal issues
- Getting good deal for customer
- Economic viability of the arrangement for all stakeholders
- Tools to support practice
 - Many tools do not support post-retirement period
 - If they do, are they neutral and do they support a range of options?
 - How is planning period set?



Regulatory Big Picture: Lots of Different Players

- Insurance products regulated by state insurance departments
- “Advisory community” regulated by a variety of agencies – SEC, state insurance departments and more
- Employee benefits regulated by Federal government: Treasury, DOL and PBGC and maybe more
- Treasury and DOL trying to encourage more lifetime income
 - Focus on benefit statements
 - Several proposed treasury regulations
 - No explicit treatment of income products in fiduciary requirements: plan sponsors very concerned about this
 - Topic for the 2012 DOL ERISA Advisory Council



Summary and Conclusion

- Very important topic
- Many issues involved
- No specific conclusion beyond the need to focus on paycheck replacement
- Complex landscape affects all stakeholders
- Much work remains to be done for focus on paycheck replacement to be smooth and routine
- Today, there are more questions than answers for many of us



Questions



For SOA Research Reports and More Information

- All of the reports discussed are available on the Society of Actuaries website at:
 - <http://www.soa.org/research/research-projects/pension/research-post-retirement-needs-and-risks.aspx>
- For more information about SOA Research – contact SOA Research Actuary Steve Siegel at
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