
A Roundup of RIIA's Meeting in Texas

By Kerry Pechter *Fri, Oct 18, 2013*

Michael Finke of Texas Tech, John Salter of Evensky & Katz Wealth Management, Larry Cohen of Strategic Business Insights and others presented at the Retirement Income Industry Association's annual meeting, held this year at Dimensional Fund Advisors headquarters in Austin, Texas. (Above, the DFA lobby).

The thoroughfare named Bee Cave Road begins just west of downtown Austin, Texas, and snakes for eight miles through dusty suburbanized canyons until it reaches Dimensional Fund Advisors' curvy blue office tower, where the Retirement Income Industry Association held its annual conference and awards gala last week.

RIIA, for those not familiar with it, is the Boston-based organization that takes a "view across the silos" of the retirement industry. Its modus operandi is to invite people from all segments of the industry—insurance and investment, manufacturing and distribution, institutional and retail—to meet and exchange ideas.

Much of RIIA's activity lately goes into promoting its Retirement Management Analyst professional designation, and on refining the retirement income planning philosophy—"build a floor, then seek upside"—that informs the curriculum on which the designation is based.

The meeting at the headquarters of DFA—the \$300 billion fund company that relocated from southern California to Austin a few years ago—featured a series of presentations on research into various issues and challenges relating to retirement. In case you couldn't attend the meeting, here are a few synopses of the presentations:

A tool for mapping the retirement landscape, household by household. RIIA, Price Waterhouse Cooper, and Strategic Business Insights have collaborated to create an analytic tool that incorporates elements of RIIA's 16-part segmentation of the retirement market, SBI's MacroMonitor household financial survey data and PwC's simulation modeling expertise (the Retirement Income Model) to produce both snapshots and dynamic views of "household balance sheets" at the individual household level or the demographic segment level. Advisors can use it to achieve a 360-degree view of their client's finances, to benchmark them against their peers and to test a variety of future scenarios. Product manufacturers can use it to locate and measure market opportunities as well as for basic target market research. "No other organization is doing this," Larry Cohen of SBI told RIJ. A report based on their work will be available to RIIA members in the future.

Losing our wits after age 60. In a sobering presentation about the way we will all eventually lose our wits, Michael Finke of Texas Tech University demonstrated that as we get older, our cognitive ability declines and with it our ability to make smart financial decisions. About 5% of Americans in their 70s, 24% of those in their 80s, and 37% over age 90 have dementia. An additional 16%, 29% and 39%, respectively, have “cognitive impairment.” Financial literacy peaks at age 49, Finke said, and the decline in cognitive ability begins at about age 60. The population age 65 and older is the only age group that is more likely to pay for financial services on a transaction basis than on a “comprehensive basis.”

The benefits of keeping a year's worth of cash on hand. John Salter, professor at Texas Tech and wealth manager at Evensky & Katz Wealth Management talked about the value of cash in a retirement portfolio. He recommended having enough cash on hand to cover living expenses for one year. He also touted the benefits of a home equity standby line of credit as a secondary source of cash that can be used to take advantage of a sudden opportunity, for an emergency or to avoid selling depressed assets.

Everyone's retirement is financially unique. No two households have the same cost of retirement, according to Morningstar's David Blanchett. A lot depends on the cost of stocks and bonds at the time you retire. The higher the Cyclically-Adjusted Price/Earnings (CAPE) level and the lower the bond yield at the time you retire, the lower your returns will be during retirement and, consequently, the more likely you will be to run out of money. The best news from his presentation was that median medical costs for retirees as a share of total expenditures is only about 5% of income at age 60, rising to between 11% (for low-income elderly) and 17% (for high-income elderly) at age 80. An unlucky five percent of elderly will see their medical spending spike above 40% sometime during retirement.

The advantage of using a retirement income advisor. In what was partly an advertisement for RIIA's RMA designation, advisor Sean Ciemiewicz of San Diego gave an entertaining presentation about the differences between accumulation advisors and retirement advisers—the latter being more holistic, more thoughtful and far more conversant with the principles of behavioral finance.

The value of a rising equity path in retirement? RIIA's annual Academic Thought Leadership Award this year went to Michael Kitces and Wade Pfau for their paper, “The True Impact of Immediate Annuities on Retirement Sustainability: A Total Wealth Perspective.” It will appear in the fall issue of RIIA's *Retirement Management Journal*.

The paper challenges previous research that touted the long-range growth potential of buying a single premium immediate annuity with at least part of your retirement savings and putting the rest in stocks. Where earlier research suggested that the annuity yielded the benefits, this paper suggested that the results would have been just as good if bonds were substituted for the annuity. It was the equities that provided the growth, the authors say.

At first glance, this paper appears to suggest that investors should increase their equity allocation during retirement, and not buy annuities at all. Asset managers who hate annuities should enjoy hearing that; life insurers won't.

But the paper only shows that if an investor divides his savings into safe and risky assets in retirement and then takes income only from the safe asset, the equity allocation will climb—only because the safe asset is shrinking.

Is that the same as a rising equity allocation? Some people might object and say that “a rising equity allocation” implies that the income-producing part of the portfolio has a rising percentage of equities.

Kitces and Pfau apparently have a newer paper that confirms the benefits of reducing the equity allocation to 30% at retirement and then increasing it by one percentage point a year over 30 years of retirement. As for debunking the value of annuities, the paper doesn't do that either: it affirms that annuities offer unique protection against extreme longevity risk.

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