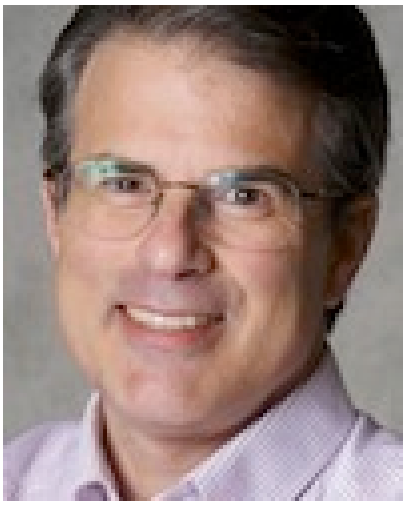
How to Make US Retirement Policy Work Better

By Kerry Pechter *Thu, Sep 16, 2021*

"Wealth After Work," a new book edited by William Gale, Mark Iwry and David John (Brookings Institution Press, 2021) gathers together the many retirement-related reforms that they and other public policy wonks have worked on over the past 20 years.



Among Washington's many policy wonks, few have tilled the field of retirement finance as diligently as William G. Gale, J. Mark Iwry, and David C. John. Their fingerprints can be found on initiatives like the auto-IRA, state-sponsored retirement plans, and the Qualified Longevity Annuity Contract (QLAC).

Over the past 20 years, they've hatched or championed ideas on retirement policy, articulated them in articles and books, and then tried to shepherd them through the kinks, bottlenecks and minefields of Washington's legislative, regulatory, bureaucratic and political corn-maze.

David C. John

Now they've edited a book of essays called "**Wealth After Work**." It's a portable treasury of practical ideas for improving retirement security in America. The publishing arm of the Brookings Institution, with which all three are or have been associated, released the book this summer.

Gale is director of the Retirement Security Project at Brookings and the author of "Automatic: Changing the Way America Saves" (Brookings, 2009) and other books. Iwry, an attorney and former Treasury official in the Obama administration, and John, a senior public policy strategist at AARP, co-created the **auto-IRA**. John's affiliation with the conservative Heritage Foundation prevents them from being cast as pure paladins of progressivism.

There are a lot of gnarly details in this book, which is a good thing. All of the policy proposals described in this book have pros and cons, which the authors document. The authors know most if not all the nuances of these policy proposals. Understanding policy nuances is essential for anyone who hopes to satisfy the many stakeholders who have to buy in before anything new gets passed—or before obstacles to new ideas can be removed.

William Gale

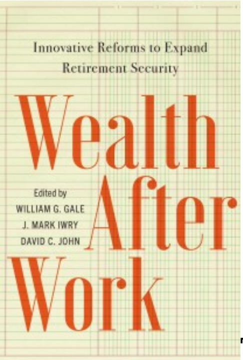
Readers who are interested in retirement income (or the "distribution" phase, as opposed to the pre-retirement "accumulation phase") should find the chapters titled "From Savings to Spending," "When Income Is the Outcome," "Supplemental Transition Accounts for Retirement," and "Retirement Tontines" especially valuable.

"From Savings to Spending" proposes what some might call the holy grail of workplace retirement plans: a mechanism for making a defined contribution plan behave like a defined benefit plan. They propose a managed payout fund that would hold an individual's diversified DC savings and distribute an annual income based on fund quantity, performance, and the age of the retiree. At the same time, a small percent of the fund would go each year toward the purpose of a QLAC, to extend the same income for as long as the individual lives.

J. Mark Iwry

They also know how to untangle a knotty issue or proposal and separate its strands without taking sides. For instance, I was fascinated by the gnarly details of Chapter 12 ("When the Outcome is Income"). It deals with the hurdles to putting annuities in retirement plans—a major goal of the life/annuity industry.

The authors of this chapter—the three editors and Victoria Johnson—propose an independent body that can evaluate insurers so that individual plan sponsors doesn't have to hire expensive consultants when trying to choose an annuity provider for their participants. They observe the futility of requiring a plan sponsor to vet an annuity provider (i.e., life insurance company) without vetting the type of annuity (Fixed income? Variable with living benefit?) that the carrier wants to sell the plan sponsor.



The chapter entitled "Supplemental Transition Accounts for Retirement" describes START accounts. These are savings sidecars, funded by workers and employers through payroll contributions (1% each) for growth in an investment fund. At retirement, give workers enough "bridge" money to delay claiming Social Security for a few years *after* they retire. By delaying, they lock in higher benefits for life. Savers would use their START funds, in effect, to "buy" an extra year of deferral.

The last chapter in the book describes "Retirement Tontines." Tontines are non-guaranteed annuities that are not necessarily underwritten by life insurers. They are distinct from managed payout funds in that only the surviving contributors to the fund receive income each year. Each participant's income is increased because there's no life insurer charging for longevity risk transfer. Adding a death benefit or spousal continuation would require further actuarial engineering.