Fall Issue of The Journal of Retirement Appears

By Editorial Staff *Wed, Oct 29, 2014*

Here's a list of the eight articles in the current issue, along with abstracts of their content. The featured authors include Moshe Milevsky of York University and CANNEX, David Blanchett of Morningstar, and Steve Feinschreiber of Fidelity.

The Fall 2014 issue of *The Journal of Retirement*, released this week, includes eight timely articles on a variety of retirement topics, written by David Blanchett, Alan Gustman, Moshe Milevsky, Larry Siegel and other well-known authors and researchers in the field.

One article analyses the risks and benefits of variable annuities with lifetime income benefits, while another calls for a national private defined contribution plan system that would take employers out of the pension business. Other articles examine the tradeoffs involved in retirement investing, the pricing of deferred income annuities and the role of alterative assets in retirement plans.

Here are the titles of the articles in the fall issue of JoR, and corresponding abstracts:

Let's Save Retirement: *Repairing America's Broken System of Funding Workers' Retirement*

By Russell L. Olson and Douglas W. Phillips

This article presents a comprehensive set of recommendations for a unified private DC pension system to cover all working Americans, with a single set of rules and without cost to the government.

A key part is the creation of broadly diversified trusteed retirement funds (TRFs), whose sponsors are trustees, with fiduciary responsibilities. TRFs will relieve employers from fiduciary responsibility for all future DC contributions.

Employee contributions will automatically go into a broadly diversified TRF unless the employee either opts out or selects a preferred TRF or the employer already sponsors a defined benefit (DB) pension plan.

Retirees will be encouraged to use their TRF savings to buy either an immediate or deferred indexed annuity. A new government agency, the Federal Longevity Insurance Administration, will enable private insurance companies to provide low-cost annuities.

The Great Recession, Decline, and Rebound in Household Wealth for the Near-Retirement Population

By Alan L. Gustman, Thomas L. Steinmeier, and Nahid Tabatabai

Despite a severe decline in asset values during the Great Recession, the wealth of early Baby Boomers (ages 51 to 56 in 2004), fell by only 3.6%. Much of the decline was cushioned by the wealth represented by Social Security and defined benefit (DB) pensions.

The rebound in asset values observed between 2010 and 2012 mitigated, but did not erase, the losses experienced earlier. Those in the highest wealth deciles, with a larger share of financial assets, were hurt most severely. Unlike those in lower wealth deciles, they have yet to regain the wealth lost during the recession.

Although the losses in assets imposed by the Great Recession were relatively modest, the failure of assets to grow above their initial levels has imposed a cost on recent retirees.

Alternative Investments in Defined-Contribution Retirement Plans: *Opportunities and Concerns*

By Stephen C. Sexauer, and Laurence B. Siegel

The authors ask whether the inclusion of alternative assets—assets other than stocks, bonds and cash—in defined contribution retirement savings plans is a good idea. They conclude:

- Risk estimates for alternative assets need to be adjusted upward and expected return estimates downward.
- The liquidity needs of the fund and of the plan participants should be carefully considered when investing some of the participants' money in alternatives.
- The total invested in alternatives on behalf of plan participants should not be large.

The Role of Variable Annuities in Addressing Retirement Risks

By Nevenka Vrdoljak, David Laster, and Anil Suri

This article examines how adding a variable annuity with a guaranteed lifetime withdrawal benefit (VA + GLWB) to a balanced portfolio can help reduce the risk of running out of money in retirement. It quantifies, through simulation analysis, the degree to which an allocation to a VA + GLWB can help mitigate longevity and sequence of returns risk.

This risk reduction comes at the cost of a decrease in the expected future bequest. The article also explores how the timing of withdrawals and the asset allocation within a VA + GLWB impacts retirement outcomes.

Addressing Key Retirement Risks

By David Blanchett

This article introduces a new model to determine the optimal allocation to equities, real assets, and annuities for a retiree with a given set of preferences. This model directly incorporates a cost associated with deviating from the investor's target risk preference, jointly testing the effects of four preference variables—aversion to volatility, strength of a bequest motive, preference for sustainable expenditure, and sensitivity to the risk of future inflation—using a dynamic withdrawal strategy and taking a probabilistic approach to mortality.

Return Sequence and Volatility: *Their Impact on Sustainable Withdrawal Rates*

By Matthew B. Kenigsberg, Prasenjit Dey Mazumdar, and Steven Feinschreiber

Using historical analysis, the article explores the implications of sequence of returns risk and suggests strategies for countering it, including annuitization and adaptive withdrawal strategies.

The article also explores volatility risk, separated as much as possible from sequence risk, and finds that the relationship between volatility, return, and SWR (sustainable withdrawal rates) is not linear. In fact, for a given horizon and degree of confidence, the relationship between the Sharpe ratio and the rate of return displays an inflection point, where the level of return required per unit of risk reaches a minimum.

Mortality Plateaus and the Pricing of Longevity Insurance

By Moshe A. Milevsky

The article examines the implications for the pricing of longevity insurance and life annuities of a plateauing in the instantaneous force of mortality (IFM) at advanced ages. Given the increasing popularity of advanced life delayed annuities (ALDAs, or deferred-income annuities) and the current low-interest-rate environment, the present-value cost of misestimating the dynamics of late-life mortality can be substantial. The article also offers some comments about the possibility of using ALDA prices to imply market expectations of mortality dynamics and plateaus in a manner similar to implied volatility in the options market. All this has obvious implications for annuity buyouts, buy-ins, and other forms of longevity risk transfer as well the most pressing retirement problem for individuals—how to make their money last for the remainder of their lives.

Increasing Defined Contribution Plan Participation: *A California Pilot Project*

By Jon D. Kanemasu, Stacie Sormano Walker, and Valerie Wong

The State of California is a multi-agency employer, with more than 200,000 employees. State employees participate in a defined benefit (DB) retirement plan and most have access to a voluntary state-sponsored supplemental defined contribution (DC) plan.

Three State of California agencies recently launched a campaign pilot project to evaluate the effectiveness of different outreach strategies in increasing supplemental DC enrollment and contributions.

The campaign results suggest that outreach efforts are effective in increasing enrollment and existing enrollee contributions, although their effectiveness may vary depending on the intensity of outreach applied.