# New issue of Journal of Retirement appears

By Editorial Staff *Thu, Feb 2, 2017*

*The new issue contains articles by Wade Pfau, Joe Tomlinson and Steve Vernon; John Turner, Andrew Biggs, and other eminent retirement researchers.*

The Winter 2017 issue of the *Journal of Retirement* has just appeared, with several stories that should be of interest to *RIJ* readers. The new issue contains stories related to the adequacy of Social Security replacement rates, the potential impact of long-term care costs on retirement portfolios, new ideas for refining the "failure rates" of retirement portfolios, and lessons learned from Ireland's and Poland's retirement systems.

A report on an earlier version of one of the articles, "Retirement Income Programs: The Next Step in the Transition from DB to DC Retirement Plans," by Wade Pfau, Joe Tomlinson, and Steve Vernon, previously appeared in RIJ. The new issue of *JoR* also includes these and other stories:

***Balancing Income and Bequest Goals in a DB/DC Hybrid Pension Plan*, by David Krausch and Virginia Young, Grace Gu and Kristen Moore.**

These authors examine a hypothetical situation where young professionals have access to a defined benefit/defined contribution plan (similar to a "floor offset" plan), then "quantify the trade-offs between the income security of a DB plan and the potential for wealth accumulation in a DC plan, addressing the question, 'How much income security will I forfeit by focusing more on wealth accumulation?'

In general, their findings conform to common sense: The more you contribute to a DB annuity, the more income you will have in retirement, and the more you contribute to a DC plan, the larger your bequest will be. As a rule of thumb, they suggest dividing contributions evenly between the DB (i.e., life annuity contract) and the DC (accumulation portfolio) to strike a balance between the twin goals.

***Will Long-Term Care Ruin Retirement Plans?*, by Michael Crook and Ronald Sutedja of UBS.**

Financial plans that do not incorporate long-term care expenses can significantly overestimate the long-term sustainability of the plan, this paper shows. The two authors found that once you add the assumption of long-term care expenses to the planning around a retirement portfolio with a starting value $1 million, the probably of portfolio ruin (depletion of the portfolio prior to the death of both members of a couple) rises to about 30%.

If it includes nursing home care in expensive areas, the cost of long-term care can exceed $100,000 per year. Assuming that couples with less than $1 million in savings choose to pay for long-term care, and don't have insurance, the chances of portfolio ruin would presumable be higher.

Couples with portfolios larger than $1 million, conversely, face a smaller chance of ruin. The authors found that roughly 85% of older couples will utilize some type of long-term care. Interestingly, they noted that female same-sex households are particularly at risk of portfolio ruin due to greater longevity and higher incidence of long-term care usage.

***Refining the Failure Rate,* byJavier Estrada**

In this article, a professor of finance at IESE Business School in Barcelona tries to fill in the gaps that he has found in the so-called "failure rate" calculations that advisors often use to determine the likelihood that a particular portfolio will provide lifelong income or not. As Estrada points out, these calculations may tell advisors and clients if the portfolio will ever fail, but typically lack two variables.

"One [variable] measures how long before the end of the retirement period a strategy depleted a portfolio; the other measures what proportion of the retirement period a strategy sustained a retiree's withdrawals," Estrada writes. "These two variables, together with the failure rate, provide a better picture of the main risk retirees have to bear during retirement… They aim to *refine and complement* the failure rate, not to replace it."

Using evidence from 21 countries and the world market over the 115 years between 1900 and 2014, he found that "two strategies that had the same or similar failure rates may have failed at a different number of years before the end of the retirement period." Failure rates for the same portfolio varied from country to country, his analysis showed.

***Improving Pension Income and Reducing Poverty at Advanced Older Ages: Longevity Insurance Benefits in Ireland and Poland as Models for the United States*, by John A. Turner, Gerald Hughes, Agnieszka Chlon-Dominczak, and David M. Raines.**

These authors look at the low poverty rates among the extremely old in Ireland and Poland,

and compare them with the relatively higher rates of poverty among that demographic group in the United States. Both Ireland and Poland have poverty rates for persons aged 75 and older that are equal to or lower than for persons aged 65 and older. The authors trace this situation to Ireland's "Age 80 Allowance" for people aged 80 and older and the "Care Allowance" in Poland for persons aged 75 and older, two longevity insurance benefit programs, discuss proposals for adding similar benefits to Social Security in the United States and Canada.

***The Life Cycle Model, Replacement Rates, and Retirement Income Adequacy*, by Andrew Biggs.**

In this article, the well-known economist at the conservative American Enterprise Institute makes the case that Social Security benefits today are more generous than commonly thought.

If the Social Security Administration relied on the "lifecycle" theory of human consumption, Biggs argues, then the portion of pre-retirement income that the average Social Security benefit replaces (the wonky and controversial "replacement rate," a benchmark for the adequacy of benefits) would be significantly higher than 40%, where it stands today.

"More life cycle–friendly replacement rate methodologies… would tend to show," Biggs writes, "that Americans' overall retirement saving is more adequate than is commonly supposed."

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