RetirePreneur: Mark Warshawsky

By Kerry Pechter *Wed, Nov 11, 2015*

With his new venture, ReLIAS LLC, the well-known retirement scholar-turned-entrepreneur Mark Warshawsky plans to market a process for helping retirees build ladders of single premium immediate annuities with part of their savings.

Mark Warshawsky was one of the earliest explorers of the retirement income space. In 2001, when today's robo-advisors were still in high school, he, John Ameriks and Bob Veres published "**Making Retirement Income Last a Lifetime**," an ahead-of-its-time article in the *Journal of Financial Planning*.

Now, after a lofty, peripatetic career in government (G.W. Bush Treasury Dept.), consulting (Towers Watson) and academia (e.g., MIT Center for Finance and Policy), the much-published, Harvard-trained economist (now with the libertarian Mercatus Center at George Mason U.) intends to monetize his retirement income ideas through an entrepreneurial venture.

Warshawsky's startup is called **ReLIAS**, which stands for Retirement Lifetime Income and Asset Strategies. The intellectual property at the core of ReLIAS is an algorithm that automates the sequential purchase of a ladder of immediate income annuities. Retirees would be able to annuitize a little at a time, rather than part with a big lump sum all at once.

That's harder than it sounds. The timing and the dollar amounts of the partial annuitizations have to be customized for each retiree or retired couple, based on their ages of retirement, risk appetites, other financial resources, health status, bequest or charitable motives and other factors unique to each household, as well as current market conditions.

"That's the secret sauce," Warshawsky (at right) told *RIJ* in an interview. "It's not just an algorithm. It's a way of collecting information from retired households that, in a rigorous way, helps me translate their answers into parameters—to collect information in a way produces the optimal retirement strategy out of the literally tens of thousands of ways in which that can be done. It's a new angle, very much based on the research, with a capital R, and on some of my own research that hasn't been published yet." (Warshawsky has published a **paper** referencing the product in the latest issue of the *Journal of Retirement*.)

'Bermuda Triangle'

This conceptual territory has been a kind of Bermuda Triangle for retirement income innovators. Many studies point to the potential benefits of using a combination of investments and annuities to mitigate the inflation risk, longevity risk, market risk, interest rate risk that retirees face. Variable and indexed annuities are ways to package this concept into a product. But attempts to popularize a customizable *process* involving income annuities haven't gotten far.

Distributional biases have been a problem. Financial intermediaries (planners, advisors, reps, and agents) tend to specialize in either investments or insurance products, and the compensation models that go with them. For lack of a natural distribution channel, hybrid solutions have tended to vanish, like ships and planes into the legendarily risky zone in the Atlantic Ocean's Sargasso Sea.

Recently, deferred income annuities have emerged as a potential insurance adjunct to a balanced investment portfolio in retirement. Also known as "longevity insurance" or "advanced life deferred annuities," these are contracts that start paying a regular income at age 80, leaving retirees and their advisors with the relatively simple chore of managing a risky portfolio over the 15 or so years before then. Only New York Life, with its short-lived 2006 LifeStages Longevity Protection Variable Annuity, has yet fused the risky portfolio and the DIA into one product.

Warshawsky isn't a devotee of DIAs, and ReLIAS doesn't make use of them. "I do think laddering immediate annuities is a better way to go than the deferred income annuities," he said. "It's still the case that immediate annuities are priced more efficiently than longevity insurance. LI has a higher load because there's more adverse selection. It isn't a complete strategy either. It just takes care of the end stage. It doesn't tell you what to do in the middle. Other people have come up with different types of solutions, but they haven't been entirely satisfactory. I've yet to see anyone solve the problem in a holistic way with a due consideration of the realistic risks."

MassMutual's version

While Warshawsky's algorithm is new, the laddered annuity idea is not. Others have recognized that you can mitigate interest rate risk by dollar-cost averaging into an annuity, and seen the wisdom of being able to buy opportunistically, or to halt the process of annuitization if the retiree's financial circumstances change. And at least one product has been based on this approach.

In 2005, Jerry Golden, who is often credited with inventing the guaranteed lifetime withdrawal benefit in the 1990s, brought a new process that he called the RetireMentor to MassMutual. They developed it into a tool that MassMutual-affiliated advisors could use to help their clients create ladders of immediate annuities. MassMutual patented the process under the name, Retirement Management Account, and introduced it in 2006.

MassMutual described it as a way to produce a stream of pension-like income, typically from a rollover IRA, by seamlessly blending systematic withdrawals from a portfolio of Oppenheimer Funds with the monthly income from an inflation-adjusted flexible-premium immediate annuity contract from MassMutual. The process called for any excess annuity income to be reinvested in the funds.

The product brought in $100 million in its first year, according to Golden, now an independent entrepreneur who is promoting a similar concept under the name **Savings2Income**. MassMutual eventually set the product aside in favor of the then-hot VA with a GLWB, and the whole RMA team left MassMutual.

"There are certain solutions that are difficult, though not impossible, to find a distribution channel for," Golden told *RIJ*. "This is not an easily wholesale-able product because it involves the intersection of insurance and investments. There's not enough juice in this product, in terms of commissions, to afford an expensive wholesaler. They'd rather be wholesaling an indexed annuity or a variable annuity."

Spencer Williams, who managed the RMA program at MassMutual a decade ago, advises anyone going down a similar road to "Keep it simple." "The concept of gradual annuitization over time remains quite compelling," said Williams, who is now president and CEO of Retirement Clearinghouse in Charlotte, NC. "But it is still difficult for the average person to grasp. Unless and until some clear picture of it takes hold, the challenges will remain. But financial engineering and highly sophisticated solutions—seeking the perfect instead of the good—are often the path taken by the really smart people."

Next steps for ReLIAS

ReLIAS is currently looking for distribution partners. “The most likely way [to distribute it] would be through an insurance company or financial organization or brokerage house that can give it their imprimatur,” Warshawsky told *RIJ*. That would be a way to reach the most people.” He knows it won’t necessarily be easy.

“The algorithm involves the use of immediate annuities, and there’s still some resistance to that product in the advisor community. There may be second-tier or relatively new organizations, or those who see difficulties with the current approach, who want to have something new,” he added.

Warshawsky thinks it may even fit into a digital advisory channel solution. But, given the need for individualization in retirement income planning, he expects that even a robo-advice version will require human intervention. “It could be developed in the direction of ‘robo,’ but if you’re talking to people approaching retirement, some intermediation and explanation may be needed. No matter how clear the technology, there is a need for intermediation. But I won’t rule out robo. Let’s see what the market wants.”