The Journal of Retirement's spring issue

By Editorial Staff *Thu, Jun 21, 2018*

The issue contains articles by retirement gurus David Blanchett, Alicia Munnell, and John Turner, plus a review by Sandy Mackenzie of Jack Bogle's latest book.

The Spring 2018 edition of the *Journal of Retirement* has appeared. Here's a list of its contents and abstracts of its articles.

Editor's Letter, by George A. (Sandy) Mackenzie

Predicting Longevity: An Analysis of Potential Alternatives to Life Expectancy Reports, by Jiahua Xu and Adrian Hoesch

This research offers a new conceptual model for estimating longevity: a two-factor-Longevity Estimation-analysis model with a telomere test as a medical basis (physiological factors) and a big data approach to filter the psychological factors to longevity. This model, together with existing LE-projection methodologies, could improve LE predictions, the authors write. Inaccurate estimation of longevity–due primarily to misinterpretations of the influence of resilience factors on longevity– harms retirees, pension funds, and the insurance industry, they assert.

Beyond the Glide Path: The Drivers of Target-Date Fund Returns by David Blanchett and Paul D. Kaplan

An assessment of the riskiness of any target-date fund (TDF) must be based on more than the size of its allocation to equities, these authors claim. They examine three drivers of target-date fund (TDF) performance: equity (or market) exposures over time (the glide path), style exposures within asset classes (intra-stock and intra-bond allocations), and other factors (e.g., manager selection and the active/passive decision, as well as any other residual risk exposures). Equity exposure drives only about 25% of the variation in returns across TDFs while style drives about 30% and selection drives about 45%, they found.

Making a Complex Investment Problem Less Difficult: Robo Target-Date Funds by Jill E. Fisch and John A. Turner

Fisch and Turner propose that target-date funds (TDFs) be personalized by offering retirement plan participants a conservative, moderate, and risky fund for each target date.

They also suggest that pension plans incorporate robo advisers to help each participant identify his or her appropriate level of risk and appropriate target-date fund. Finally, they propose on-the-spot financial education to help participants understand the implications of each risk level. "The current one-size-fits-all approach generally does not provide the appropriate level of risk for all employees who plan to retire in a given year," the authors claim.

Replacing the Failure Rate: A Downside Risk Perspective, by Javier Estrada

The author proposes "downside risk-adjusted success (D-RAS) as an improved method for evaluating retirement strategies. D-RAS takes a downside risk perspective, measuring risk with the semi-deviation and, therefore, with volatility below a chosen benchmark. At present, risk evaluation is typically based on the failure rate (the rate at which a retiree's nest egg is exhausted prematurely), or risk-adjusted success (RAS), which aims to capture the failure rate and the success of the strategies evaluated. RAS penalizes strategies that leave large bequests, however. D-RAS addresses this shortcoming.

Six Key Influences on the Efficiency of In-sourcing in State and Local Plans, by

Michael A. Urban

State and local pensions can take care of the investment function in-house, or they can outsource part or all of it. Which strategy is the more desirable depends on six key influences that vary across institutions: the behavior of cash flows, the significance of economies of scale, asset allocation, staff compensation, a plan's geographic location, and the scope of fiduciary duty and oversight. This article offers a way to think comprehensively about in-sourcing in the context of local politics and regulation, governance, and geography.

To What Extent Does Socioeconomic Status Lead People to Retire Too Soon? by Alicia H. Munnell, Anthony Webb and Anqi Chen

Working longer enhances retirement security, but the most vulnerable individuals–those with low socioeconomic status (SES), poor health, and/or poor job prospects– can't always work longer, these authors write. Using data from the Health and Retirement Study (HRS), they show that people who most need to work longer tend to face the biggest barriers to working longer. The correlation existed even after the authors controlled for household characteristics and late-career shocks. They may need other solutions to their retirement savings gaps.

Governments Have It Wrong on Pensions—Personal Lessons from a Consulting Career, by Michael Littlewood

Governments and employers should stay away from subsidized or forced saving schemes, writes this author. He asserts that: Only governments can a) eliminate or reduce poverty in retirement through a universal state pension; b) level the tax and regulatory playing fields for all financial services; c) obtain high-quality data to assess what households are doing about their retirement incomes; d) deliver believable information that helps citizens to understand their retirement saving needs. There is no evidence that subsidized or forced savings programs have worked anywhere in the world, he writes.

Book Review: "The Little Book of Common Sense Investing: The Only Way to Guarantee Your Fair Share of Stock Market Returns (10th edition)," by Jack Bogle.

Reviewed by George A. (Sandy) Mackenzie