The Latest from an RIJ Competitor

By Kerry Pechter *Thu, May 5, 2016*

Catch the Spring 2016 edition of The Journal of Retirement for research on Social Security claiming for widows and widowers by Reichenstein and Meyer, for John Turner's discoveries when 'mystery shopping' for a rollover, and much more.

The Spring 2016 edition of *The Journal of Retirement*, the quarterly magazine published by Institutional Investor Journals, edited by Sandy Mackenzie and underwritten by Bank of America Merrill Lynch, arrived in mailboxes this week, bringing its usual mix of scholarly articles about retirement.

Financial advisors might be especially interested in Nancy Foster-Holt's article on the transition to retirement for small business owners and in the piece on Social Security claiming for widows and widowers by Social Security gurus William Reichenstein and William Meyer.

Several of the articles are aimed at public policy wonks. The articles on longevity annuities, on "in-plan" annuities, and on defined benefit plans all involve suggestions for government action that would resolve some of the obstacles to the use of products and strategies whose popularity with academics is not matched by success in the marketplace.

Here's a list of the articles in the new issue, along with brief descriptions:

The Market for Longevity Annuities. In the past three years, longevity annuities, aka deferred income annuities (DIAs), which provide income beginning more than a year after purchase, have become a multi-billion dollar business. Yet demand for DIAs, as for all income annuities, is still relatively weak.

In this article, Katherine G. Abraham of the University of Maryland and Benjamin H. Harris, a former deputy director of the Retirement Security Project at the Brookings Institution, propose ways to "remove obstacles to a robust market for longevity annuities." Among their suggestions:

- "Issuance of a new financial security graphic," modeled on the old Department of Agriculture food pyramid, reminding Americans to include annuities in their financial planning.
- Federal certification and favored tax treatment for certain financial products, including longevity annuities;
- Allowing longevity annuity issuers to advertise the presence of state guaranty

programs;
- Offering longevity annuities in the federal Thrift Savings Plan;
- Encouraging use of DIAs in employer-sponsored retirement plans;
- Creating longevity-protected bonds or mortality indices allowing insurers to hedge against unexpected increases in human lifespans.

Regulatory Recommendations for the Department of Labor to Facilitate DC Lifetime Income, Robert J. Toth Jr. and Evan Giller. The authors of this article, both attorneys, would like to see a resolution of the legal uncertainty that prevents most 401(k) plan sponsors from offering an annuity option to participants. They recommend that the DOL and Treasury Department create an online "clearing house" for information about annuity products and providers and "how to use annuities in DC retirement plans."

U.S. Corporate DB Pension Plans—*Today's Challenges*.Two attorneys,Martin L. Leibowitz and Antti Ilmanen "examine why so many [defined benefit] plans have closed and/or shifted to more conservative asset/liability allocations [and] discuss the challenging balancing act for underfunded plans when making their asset class allocation, duration-matching, and contribution choices."

Financial Illiteracy Meets Conflicted Advice: *The Case of Thrift Savings Plan Rollovers*, John A. Turner, Bruce W. Klein, and Norman P. Stein. This article, whose research involved mystery-shopping into the advice that participants in the ultra-low-cost federal Thrift Savings Plan receive about rolling over their money to an IRA at a higher-cost bank, fund company or broker-dealer, concludes that participants are often urged into rollovers that will result in increased annual fees, and that participants as well as advisors underestimate or disregard the impact of fees when making a rollover decision.

Addressing the Retirement Savings Crisis in the United States: *The Role of Employer-Provided Financial Education*, Barbara A. Smith. This economist in the Social Security Administration's Office of Retirement Policy reviews recent research on the effectiveness of financial education at the workplace. She concludes that its effect "will be greater in workplaces with younger, less-educated workers who have fewer retirement savings options."

Social Security Claiming Strategies for Widows and Widowers, William Reichenstein and William Meyer. "Many financial advisers are not aware… that for many clients their Full Retirement Age for retirement and spousal benefits is earlier than their FRA for retirement and spousal benefits," write the authors, and this article goes on to show that Social Security claiming strategies for widows and widowers may vary, depending on the age of the surviving spouse.

The Retirement Preparedness of the Business Owner. Nancy Folster-Holt. America's small business owners tend to be well off, in the aggregate, but "worlds collide," writes this professor at the Husson University College of Business in Bangor, Maine, when a "business owner must exit a business as well as prepare for retirement." The business can become a trap, she finds, and too many business owners "continue to answer 'Never' when they are asked, 'When do you intend to retire?'"

Book Review: *Retirement on the Rocks: Why Americans Can't Get Ahead and How New Savings Policies Can Help*. George A. (Sandy) Mackenzie, the editor of *The Journal of Retirement*, reviews Christian E. Weller's 2016 book describing our flawed retirement system and prescribing remedies for what ails it. Weller, a professor at the University of Massachusetts–Boston and fellow at the Center for American Progress, recommends establishing a minimum Social Security benefit of 125% of the federal poverty line for workers who have contributed 30 years, auto-enrolling workers without workplace plans into state-sponsored savings plans, and limiting options in IRAs to low-cost, low-risk investments. The book, writes Mackenzie, "is an excellent review of the thesis that the U.S. does confront a retirement crisis, and its proposal deserve serious consideration.