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the journal of retirement

One of the principal themes of *The Journal of Retirement* is how to create and then manage retirement income. As countries around the world increasingly rely on individual savings and investments—sponsored or not—to achieve financial security, it is critical to understand issues such as when and how to retire, asset allocation, and fund selection, rebalancing, income guarantees, and other decisions that individuals must now make. Four of the five articles in this issue focus on how to increase or better manage retirement income and the fifth considers the macro-economic and demographic pressures that could lower future retirement income expectations.

One approach to increasing retirement income might be through better late-career management. Teresa Ghilarducci, Michael Papadopoulos, and Anthony Webb analyze HRS data to ask by how much working longer and delaying Social Security claiming can increase retirement income. What they find is that, although in theory older workers can gain a substantial benefit, in practice most older people who continue to work also claim Social Security and miss out on the delayed retirement credit. Many of them are acting at least somewhat rationally—their labor market earnings fall short of projected post-retirement income—and claim Social Security to supplement their meager earnings and to smooth consumption. This finding has important implications for proposed Social Security reforms and other policies that assume low-income workers can extend their careers before receiving retirement benefits.

Another approach to increasing retirement income could be through better asset allocation. Plan sponsors recognize that, left to their own devices, few retirement investors ever touch their allocations. Hence the attractiveness of target date funds and other investments that involve automatic rebalancing and reallocation over time. Some question such an approach, asking whether retirement investors could improve their returns by actively managing their fund allocations; others worry that attempts to do so would end up disappointing as investors reallocate from losers to winners. In their article, Akhtar Lodgher and Syed Harun, both of Texas A&M San Antonio, propose a systematic way of actively managing fund allocations for the purpose of beating a passive rebalancing approach. By adopting their fund-level momentum strategy, an investor could have enjoyed returns in excess of the S&P 500 over different parts of the historical investment cycle. Remaining questions include whether such a strategy could work in the future and whether individual investors are interested in or capable of sustaining the effort needed to implement such a strategy.

Another approach to improving retirement income could be through better management of asset decumulation. Many studies have investigated the value of immediate annuities, contracts in which households irrevocably exchange a lump sum for a lifetime income. But income annuities comprise a small share of the annuity market. A large share of annuity sales are of variable annuities, an investment product with Guaranteed Living withdrawal Benefit riders that permit annuity holders to take lifetime withdrawals, with the insurance company stepping in should the account be exhausted. These products insure households against the confluence of two bad events, living longer than expected and experiencing poor investment returns. Although many financial professionals will be familiar with these products, they have received little attention in the academic literature and we suspect that a significant

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proportion of our readership will be unfamiliar with them. We are therefore pleased to publish an article by Wade Pfau that explains key roles of variable annuities, including their ability to provide market growth, liquidity, longevity risk protection, and an income floor. He addresses their inner workings, including the benefit base, contract value, rollup rate, step-up opportunities, and guaranteed withdrawals, along with consideration of costs and benefits.

In their article, Richard K. Fullmer and John A. Turner consider a product structure related to variable annuities, namely tontines, and investigate how they might be combined with a new form of advice—robo—to improve efficiency and efficacy of retirement income. Tontines are a centuries-old idea where people pool their assets and their mortality while avoiding the expenses of a fully guaranteed product like an annuity. For a tontine, an individual's retirement income depends on how much they contributed to the pool and is adjusted by how many members of the pool die/survive each year and investment returns. As interest in tontines reemerged in recent years, there are examples of products, such as TIAA-variable annuities, that have tontine features. Fullmer and Turner show that robo advisors are well suited to offer and manage tontines efficiently, thereby creating low-cost income streams for life.

For an examination of the context surrounding retirement income, Steven Sass addresses, not how to improve retirement income, but whether asset values and dividends will support future retirement income needs. The US and other developed countries are, demographically speaking, moving toward an age structure that resembles Japan. As this happens, he posits that the demand for capital could fall while the supply of capital rises, putting downward pressure on corporate earnings, short- and long-term interest rates, asset returns, and economic growth. The implications for retirees include low future income expectations, again like the Japanese experience of the last couple of decades. In the US, policies that reduce the supply of capital (e.g., wealth tax) or increase demand for capital (e.g., infrastructure spending) could be considered.

In keeping with the theme of improving retirement income, the special column from Warren Cormier, Pamela Hess and Dominika Türkcan of the Defined Contribution Investment Industry Association (DCIIA) mentions DCIIA's recent annual Innovation Forum and Retirement Research Center (RRC) Summit, which focused on the role and need for retirement income solutions and helping retirees with spending. The column also reports on a DCIIA RRC study (which will be released in June and July, 2022) of retired workers that identified four clusters or types of retirees: Confident, Optimistic Thrifty, Nervous, and Struggling. The study found that these groups vary in terms of their financial resources and attitudes, but all these groups place nearly equal weight on priorities such as steady income, safety, and lifetime income. Importantly, this research reveals a disconnect between what people say they want—a steady lifetime income—and well-documented low levels of voluntary annuitization. Moreover, many limit their withdrawals to the Required Minimum Distribution (RMD), except for Struggling Retirees, who spend more out of necessity rather than comfort. These findings have implications for financial education and advice programs.

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