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the journal of retirement

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THE EDITORIAL ADVISORY BOARD

We are excited to welcome five eminent retirement experts to our editorial advisory board. Warren Cormier, Katja Hanewald, Lew Minsky, Will Sandbrook, and Wei Sun bring to the advisory board unparalleled international and industry expertise. Dr Cormier is Executive Director of the Defined Contribution Institutional Investment Association (DCIIA) Retirement Research Center (RRC). He has more than 25 years of experience in research for investment companies, banks, and insurance companies. Dr Hanewald is a Senior Lecturer in the School of Risk and Actuarial Studies and the Coordinator of the Actuarial Co-op Program at the University of New South Wales, Sydney. She is also Director of Research of the Ageing Asia Research Hub. Her research interests encompass longevity risk management, retirement financial products, and ageing in China. Lew Minsky is the founding President and CEO of DCIIA (more on this in the following). Will Sandbrook is Executive Director of NEST Insight. NEST is the United Kingdom's innovative retirement savings program that has done so much to extend coverage. Professor Sun is Associate Professor at the Hanqing Advanced Institute of Economics and Finance, Renmin University, Beijing. He is an expert on both the American and Chinese social insurance systems. We thank the new board members for volunteering for this important position.

In addition to new members of the editorial board, *The Journal of Retirement* and its parent, Portfolio Management Research, are delighted to announce a partnership between the journal and DCIIA. Both organizations recognize that pension practice benefits from outstanding retirement research on behavior, design, and public policy. Among many other things, this new partnership puts DCIIA members in closer touch with *The Journal of Retirement* articles, keeps the Journal in touch with practitioner concerns and enables both organizations to join in conference planning and other activities.

This quarter's edition contains five articles focusing on the following important and topical questions.

ASSET DRAWDOWN IN RETIREMENT

The life cycle model gives a clear prescription of how retirees should manage asset drawdown in retirement—they should choose an asset allocation and drawdown rate that maximizes the expected utility of lifetime consumption, given their utility function, rate of time preference, the anticipated distribution of returns on financial assets, and the household's annual mortality risk. This, of course, is a lot easier said than done, and has led to many papers proposing rules of thumb. Prominent

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among such rules is the 4% rule—the claim that households spending 4% a year of their initial wealth are at low risk of outliving that wealth. This rule is highly sub-optimal because it does not permit households to adjust their consumption to realized returns. In reality, a household should increase consumption when returns are better than expected and reduce consumption when returns are worse than expected. The article by Clare, Seaton, Smith, and Thomas proposes just that—a simple rule of thumb that allows consumption to respond to realized returns. Importantly, the article couples their proposed rule of thumb with a financial product close to my heart—a deferred annuity purchased at retirement with payouts starting at some advanced age. This product transforms the almost impossible task of managing drawdown over an uncertain lifetime into the more tractable task of managing drawdown over a fixed period ending with the date the annuity payments commence.

THE GIG ECONOMY

The article by Bruckner and Formam focuses on first measuring the size of the gig economy and then discusses the implications of the growth of the gig economy on financial preparedness for retirement. I had always assumed that the retirement policy concern with gig work was that most retirement saving was facilitated by employer sponsored retirement plans and that, in the absence of an employer, few gig workers would take the initiative and save through an IRA. Bruckner and Forman raise a more serious concern, namely that if gig economy workers fail to report their earnings to the IRS and pay self-employment tax thereon, they will face a retirement with reduced Social Security benefits.

FINANCIAL WELL-BEING OF BLACK AND HISPANIC WOMEN

The article by Clark, Lusardi, Mitchell, and Davis conducts a deep dive into the financial well-being of Black and Hispanic women. A surprising finding of the article is that Black and Hispanic women report similar levels of financial well-being to White women, despite being in less advantageous financial situations. The authors find dissimilarities between the three groups in the factors contributing to self-reported financial well-being, these dissimilarities likely reflecting both objective differences in the effects of education, family living arrangements and so on, and different standards by which the three groups assessed their situation. The article raises important questions about the potential for financial education programs to improve household financial well-being. The authors conclude that extant programs do not do a good job of meeting the needs of Black and Hispanic women. I agree, but would go further and suggest that the financial challenges faced by some Black and Hispanic women are so pervasive that even the best designed financial literacy programs may do little to enhance their financial well-being.

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THE ROLE OF RETIREMENT SELF-EFFICACY IN EXPLAINING RETIREMENT PLANNING

The life-cycle model of savings behavior falls short in its explanations of why some households prepare adequately for retirement, yet others do not. Although behavioral finance offers important insights, they, too, leave important questions unanswered. The article by Peter and Ambilikumar draws on the psychology literature and argues that self-efficacy, an individual's judgement of their capabilities to organize and execute various courses of action required in attaining designated types of performance, is an important determinant of that individual's financial preparedness for retirement. The common perception is that women have lower levels of financial literacy than men. But recent research suggests that women are less confident of their financial knowledge than men. Perhaps a lack of confidence manifests itself in lower self-efficacy, and thus less favorable financial outcomes.

THE IMPACT OF LABOR MARKET EARNINGS ON ASSET ALLOCATION

According to conventional wisdom, households should rebalance their investments in favor of bonds as they age. This recommendation is often based on the false belief that stocks are less risky in the long-run. The theoretically correct justification is that the future value of labor market earnings is a relatively low-risk asset and substitutes for bonds in the household's portfolio. But what of the labor market earnings of workers who unretire? Using data from the Health and Retirement Study, Curnutt, Sun, and Guillemette show not only the present value of labor market earnings is a risky asset, with a significant risk of involuntary job loss, and worse, that the risk is correlated with stock returns. Workers seem to be aware of this, because they invest more conservatively than other similar households, just as finance theory would predict.

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