Statement
Women's Institute for a Secure Retirement (WISER®)
Department of Labor and Department of the Treasury
Lifetime Income Joint Hearing
September 14, 2010

Good Morning Assistant Secretary Borzi, Deputy Assistant Secretary Iwry, and members of the panel. I appreciate the opportunity to appear before you today to discuss issues relating to lifetime income options for participants and beneficiaries. I am Cindy Hounsell, the President of WISER, a nonprofit organization with fifteen years experience providing women with the education and tools to help them avoid poverty in retirement, and raising awareness among policymakers and the public on the unique retirement risks women face.

WISER also operates the National Education and Resource Center on Women and Retirement Planning (The Center) under a cooperative agreement with the Administration on Aging. The Center is a gateway of information created with strategic public-private coalitions to provide hard-to-reach women with financial tools and actionable information. The Center's goal is to help low- and moderate-income women make the best decisions they can with what they have. The Center has directly reached tens of thousands of women through our workshops and our partners' workshops. We've reached millions with our publications and website. WISER's approach is to bring financial planning back to the basics. Our strength is to provide women with core financial knowledge that encourages them to make financial and retirement planning a priority in their lives.

In May, AARP, ASPPA and WISER sponsored a Lifetime Income Summit to bring together many retirement analysts and researchers, as well as asset managers, insurers, and policymakers. We addressed the challenges in providing lifetime income and the barriers and concerns that employers face in offering lifetime income options within their retirement plans. These concerns include fiduciary exposure and cost. The Summit provided a unique opportunity to learn how the financial and insurance market innovations are addressing the gaps in lifetime income security. Key findings released from the Summit can be found at www.lifetimeincomesummit.org.

We are hopeful that the Agencies' hearing will help to facilitate adoption of policies to help increase participant education and to fill in lifetime income gaps.

Introduction: Risks Women Face

The term "lifetime" takes on a whole new meaning for retiring women. Millions of women will live a third of their lifetimes after they reach their 60s. Thirty years is a long time to make savings last, putting women at high risk for poverty in their old age.

Many of the longevity risks women confront simply come from factors operating throughout their work lives that affect their ability to save and build assets. For women, factors such as earnings, marital status, and the interruption of work history or working part-time to accommodate family responsibilities affect their future retirement income. In theory, women should save more money than men because they live longer and will need more money to support themselves. As they age, they are also likely to have more incidences of chronic illness and will need additional funds to pay higher expenses for health care and prescription drugs. Yet, at the same time, women are not saving anywhere near the amounts that are needed for a longer retirement.

The most pressing threat women face in retirement is outliving their assets. Running out of money in retirement is too large of a risk to self-insure. But that's what millions of retirees attempt to do in an era of lump-sum distributions from defined contribution plans. Women need the best information and tools to help them determine how much income they will need, where the money will come from and how to make it last. They need access to safe, affordable lifetime income products.

Our statement today will respond to the first three issues included in the Federal Register's Hearing Notice. I will begin with issue number one:

1. **Certain Specific Participant Concerns Affecting the Choice of Lifetime Income Relative to Other Options.**

There is ample research and WISER has sufficient anecdotal evidence showing that participants take the lump-sum option because they lack information. They lack financial capability and do not have an understanding of longevity risks or why they might want to pool these risks and receive income for as long as they live. We hear that the language used to guide participants has the opposite effect and acts as a deterrent for people deciding whether to annuitize.

We hear story after story of people who take the large sum and put it in a cash account, terrified that they will otherwise lose it. A typical story is a couple receiving $250,000 in lump-sum; the wife explains that they didn't trust the information they were receiving so they just took the money, and then the "vultures" descended and would not leave them alone. She said that the "vultures" included her grown children, as well as several financial planners who wanted to help them invest their nest egg.

Aside from the individual trust issue is a lack of trust toward financial institutions, especially following the economic crisis. Despite state guaranty funds for immediate annuities, people fear that the company that sells them the product will go bankrupt and be unable to pay the promised benefit. There is also confusion about the costs of annuities even though, over the years, a comparison with mutual funds shows that annuities are reasonably priced.[1]

Lifetime income products are not without their limitations. For example, they cannot fix inadequate savings. They also typically do not adjust for inflation, eroding the annuitant's purchasing power over time. Providers are increasingly coming up with features to address issues like these, but they may come at the cost of higher expenses and lower income payout. We are hopeful that the products will continue to improve with the advent of the boomers' retirement.

Also, the decision to accept a lifetime annuity is typically irreversible. Studies show that people fear this aspect, on the chance they may die long before they've received the cost of the annuity back. We tell women the problem with this thinking is that if they live for a long time, their heirs

[1] Babbel, David F. (2008). "Lifetime Income for Women: A Financial Economists Perspective." Wharton Financial Institutions Center Policy Brief: Personal Finance, p.10.

wouldn't get anything anyhow, and if their money runs out, heirs might end up having to support them.

There is also the issue of control. We have seen people take a lump-sum and leave an annuity with a cost of living adjustment on the table, just to have control.

We believe that government policy should help people with their decision-making. WISER has worked with The Actuarial Foundation for nearly a decade to help people understand why they need to know about annuities. We would like to work with the Agencies to provide the best information for people so that they can easily make these life-defining decisions.

I will now move onto issue two:

2) Information to Help Participants Make Choices Regarding Management and Spend Down of Retirement Benefits.

Until recently, policy discussions on retirement security have focused largely on asset accumulation and how and why everyone needs to save more. Accumulation is, of course, a critical ingredient to retirement income security. But we need to help people see the big picture: how can they make use of what they've earned and saved to make their money last as long as they do. Education is a key missing link when it comes to lifetime income options.

Combined with Social Security, immediate annuities represent a meaningful channel through which millions of women can live out their years in comfort and dignity. Yet, despite their availability, few retirees opt for lifetime income products. Only 18.6 percent of retirees aged 65 and over receive retirement income in the form of an annuity. [2] Women are in the difficult position of making big decisions with little guidance while being unable to afford even a small mistake. Many women are unaware of why they will have more challenges in retirement, yet they need help to make sure they do not make financial mistakes as they can least afford it.[3] Education should help them understand the risks of retiring too early, of outliving assets, and the impact (and likelihood) of living alone. Women can receive actionable information through employers, who surveys show time and again are trusted messengers. We need to help employers educate people and make it easier for them. I think there needs to be a place where medium and small employers can send their employees to get the trusted information they need. I am very sympathetic to the issues that employers have to deal with. I happen to be a former union representative for a great company that is now out of business – so I have seen both sides and know the difficulties when you are providing a benefit and have to worry that everything you say may create another problem.

[2] Employee Benefit Research Institute. *Income of the Elderly Population, Age 65 and Over: 2007.* EBRI Notes, Vol. 30, No. 5. May 2009.
[3] See WISER report, *How Can Women's Income Last as Long as They Do*? June 2009. Available at: www.wiserwomen.org.

One quick story: We at WISER were working with a large company on a research project with an accompanying consumer booklet for women. It's a great booklet if I may say so. The company representatives told me many times how popular it was and how pleased they were. Copies were just flying off the shelves, and there were several reprints before the year ended. Someone decided that such a great booklet should be translated into the Spanish language. The Spanish compliance person, who happened to be a stickler, added about 5 pages of what most folks would consider as regulatory "blah blah." I don't mean that to be disrespectful, but that's what it would mean to the average person reading a 15-page booklet. The end of the story is that after that, the English version had to be revised. The booklets were no longer flying off the shelves and it became a document that WISER no longer wanted to use.

We know that people can learn if they are given the right information. We believe that even the decumulation stage otherwise known as, "the rest of your life" can help people realize how different needs and circumstances will involve different ways of making money last. We believe there needs to be a roadmap or guidelines for employers about how to educate their employees on these important choices and how to take their distributions. WISER works through organizations that have trusted links to a constituent base to educate millions of women. We have talked and spoken to thousands of women and know that it can be done.

The decumulation stage is trickier than the earlier stage of accumulation of assets. Every aspect of a worker's financial life needs to be considered before such an important decision is made—what expenses will need to be covered by their retirement income? Will the house be paid for or will an annuity need to cover those expenses too? The need for individualized options makes it difficult to have a default lifetime income.

We need to reframe the discussion so that the pursuit of lifetime income, not the prospect of a one-time lump-sum check, is the goal of retirement planning. Educational efforts need to build better awareness about the tradeoffs of retirement income options.[4]

New online tools make retirement planning more accessible to more people. Educational efforts should draw attention to useful tools. One particularly helpful tool was highlighted at the Lifetime Income Summit by Robert Reynolds, President and CEO of Putnam, who provided a demonstration of their Lifetime Income Analysis Tool. This tool was designed to provide participants with an assessment of how well they are doing in accumulating income and how their income translates into a monthly benefit. This is all expressed very clearly and allows participants to include Social Security benefits and other savings. It also allows them to increase their contribution. While there may be other similar tools in use by other providers, this was clearly one of the big hits at the Lifetime Income Summit, held this past May.

The final issue I will touch on today is:

3) Disclosure of Account Balances as Monthly Income Streams.

[4] For an in-depth discussion, please see WISER's report: *How Can Women's Income Last as Long as They Do? Thought Leaders Discuss Managing Assets in Retirement.* June 2009.

Defined contribution plans are now the primary retirement plan for most participants. Government and employers need to do a better job of helping participants understand how to use their account balances to support them during their retirement years. One step is to show the assets on statements in the form of lifetime income in addition to the lump-sum value. (As an aside, WISER's booklet, ***Making Your Money Last for a Lifetime,*** jointly issued with The Actuarial Foundation, provides a good first impression on what the choices are.)

Right now, most statements only show the benefit as a lump-sum amount. But most employees don't know what they need to consider. If the participant takes a lump-sum option, she needs to estimate her longevity. She also needs to understand what investment returns she will need to make sure that she doesn't use up her funds too quickly.

Participants who see their balance in the form of lifetime income may begin to think about their retirement savings in terms of income rather than a lump-sum. Some plan sponsors agree that this may happen, and have begun expressing the benefit both as a lump-sum and a lifetime payout. We believe that, while benefits should be presented as a monthly stream, it should be clear that it is just an estimate. We understand the challenges of determining appropriate assumptions. The assumptions for the calculations could be provided by the government annually to ensure consistency across plans.

We also recognize that the benefit in its annuitized form may seem so small that participants would dismiss it out of hand and even cash it out. With meaningful education, we believe that we can overcome these challenges.

The Agencies could encourage employers to educate workers about lifetime income, including the availability of annuity options. We would also recommend that the Agencies work with industry leaders and other interested players to develop a set of Best Practices on Financial Awareness of the Lifetime Income Option. The recent Lifetime Income Summit showed that there was a considerable agreement on the need for guidance on the decumulation stage of retirement planning.

Conclusion

In spite of limitations, WISER sees immediate annuities as an important resource for millions of women, even those who have modest retirement assets. One hundred percent annuitization would make little sense for most (if not all) retirees. At the same time, a retiree managing 100 percent of her retirement assets doesn't make much sense for most (if not all) retirees either. But we believe the option of annuitizing some portion of retirement assets is critical.

Immediate annuities aren't perfect. But when compared to the risks retirees' face of running out of money, annuities have an important role in retirement income security.

Thank you for allowing us to testify.