FINANCIAL SECURITY PROGRAM
aspen institute

LEADERSHIP FORUM ON
RETIREMENT SAVINGS

STRENGTHENING AND STEADYING CASH FLOW IN RETIREMENT

A RAPPORTEUR'S SUMMARY

June 8, 2021

1:00 p.m. – 4:00 p.m. Eastern

ACKNOWLEDGEMENTS

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ABOUT THE FORUM

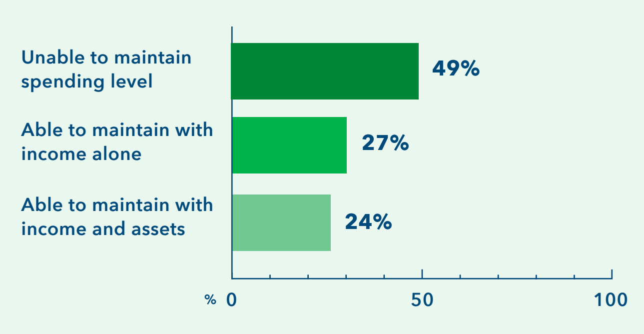
In April 2021, the Aspen Institute's Financial Security Program kicked off the fifth annual Aspen Leadership Forum on Retirement Savings. The opening session was held virtually on April 15 and was open to the public. This was followed by a series of four invitation-only, virtual, in-depth private dialogues exploring critical challenges within our retirement savings system: expanding access to retirement savings, increasing portability of retirement savings, strengthening retirement cash flow, and building a retirement savings system that produces more racially equitable outcomes. More than 400 experts from across the retirement ecosystem – from industry, government, academia, advocacy, fintech, and more – participated in our public event, and 80 more participated in one of our private dialogues to advance breakthrough solutions to America's unfolding retirement savings crisis. To encourage open dialogue, the Forum private dialogues were governed by Chatham House Rule, under which participants are free to share what was discussed but are entrusted not to reveal the speaker's identity.

ABOUT THIS PRIVATE DIALOGUE

On June 8, 2021, the fifth annual Aspen Leadership Retirement Forum on Retirement Savings convened a panel of 12 experts to discuss the challenges of creating a steady and sufficient income stream in retirement, especially for those who struggled to save during their working years. In this private dialogue, Forum participants examined the problems that retirees encounter in trying to make a career's worth of savings last a lifetime, while contending with unpredictable expenses and changing spending patterns. Participants debated the role of private businesses and governments in creating retirement income that is reliable and routine. The group also considered how Social Security—the bedrock of financial security in retirement—works in combination with income generated from savings, and how it could be strengthened, especially for low-income beneficiaries.

EIGHT STATS THAT TELL THE RETIREMENT CASH FLOW STORY

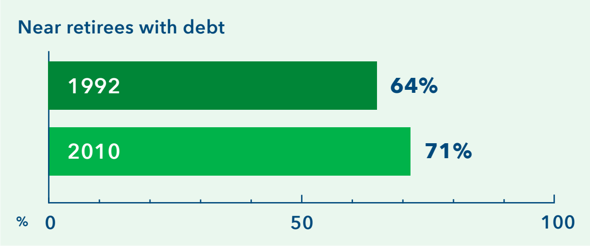
1. Many new retirees can't keep up pre-retirement spending levels.

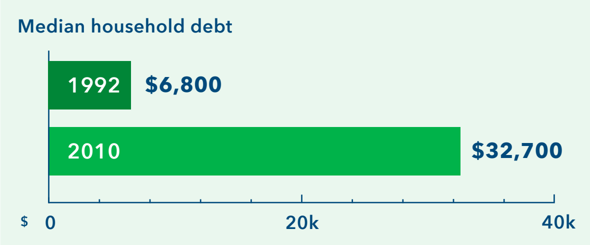


Note: Research based on people who retired between 1992 and 2014.

Source: Consumer Financial Protection Bureau, "Retirement Security and Financial Decision-Making," May 2020

2. More of today's retirees are dedicating cash flow to debt service, compared to previous generations.





Notes: For ages 56-61; median debt is in 2015 dollars.

Source: A. Lusardi, O.S. Mitchell, N. Oggero, "The changing face of debt and financial fragility at older ages," American Economic Association, 2018

3. Many on the cusp of retirement don't know what their Social Security checks will contain.

30%

of near-retirees can't even guess what they will receive from Social Security

Note: Based on individuals one to two years before they are eligible for benefits.

Source: Andrew Biggs, "Improving the Social Security Statement," Rand Corporation, 2010

4. Waiting to claim Social Security benefits provides a substantial financial advantage...

77%

increase in monthly Social Security benefit if claimed at age 70 vs. 62

Note: For those born 1960 or later.

Source: Social Security Administration

5. … But most retirees make poor decisions about when to make their claim.

4%
of retirees claim Social Security at optimal time

$110,000
how much Social Security money an average household leaves on the table as a result of mis-timed claiming

Source: United Income, 2019

6. When given the choice between lump sum or income for life for their pension, workers often choose the former…

27%
Annuitization rate for pension-plan participants when there were no restrictions on lump-sum distributions

Source: EBRI Issue Brief, "Annuity and lump-sum decisions in defined benefit plans: the role of plan rules," 2013

7. …and that single, up-front payment doesn't always last long.

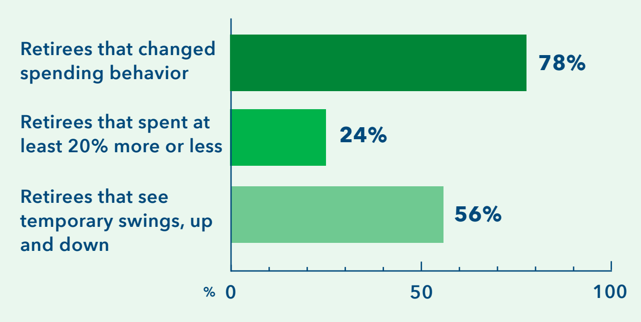
21%
of retirement-plan participants who took a lump sum depleted it within five and a half years, on average

Note: From defined benefit or defined contribution plan.

Source: MetLife, "Paycheck or Pot of Gold Study," 2017

8. Spending in early retirement can be unpredictable.

In first three years of retirement:



Note: For those who retired age 60–69

Source: JP Morgan Asset Management, "Three Retirement Spending Surprises," 2019

THE **BIG** QUESTIONS

1. How can we more effectively guide Americans through the complicated decisions about converting savings to income and claiming Social Security, to help them maximize their cash flow during retirement?

From having no idea about how much income their savings will produce to a poor understanding of longevity expectations, most retirement savers are largely ignorant of what lies ahead for them financially. Workers currently receive little guidance from employers or retirement-plan sponsors on the subject, and while that continues to be the case, they will be at risk of making costly mistakes when they begin to draw on their savings during retirement.

OVERHEAD

"The average American has no one to speak to and doesn't understand what they should be working towards. That's our challenge."

"Now, the agency is doing a better job of informing people that Social Security is not meant to be your only source of income in retirement."

- For millions of Americans, Social Security is the linchpin of their retirement. Yet many workers who are close to retirement do not even know what benefit to expect. The annual statements available to all workers are being overhauled, with new factsheets targeted at different age groups. Among the enhancements: personalized estimates of benefits by claiming age.[1] In addition, the statements will note that Social Security benefits are not intended to be one's sole source of income. Although Forum participants were optimistic that these statements would prove helpful, most workers have to create an online account and request one since Social Security no longer mails statements every year.
- A provision of the SECURE Act requires 401(k) plan sponsors to disclose an estimate of the monthly income that savings could produce for each participant. These lifetime income illustrations show what the plan balance would pay if annuitized. The new rule took effect in September 2021; its effectiveness is worth watching.

"I'm pretty sure our RMD rules were not written as optimal consumption rules, but as long as they are playing that role we have to have a conversation about what a sustainable RMD path looks like."

- Absent other direction, required minimum distributions (RMDs)—the base amount retirees have to take each year from their retirement plans once they reach age 72—have become the de facto determinant for how much to withdraw, participants noted. But RMDs were never intended to serve this function, and the fact that they've taken on that role for some retirees highlights the need for more and better advice.

> "A simple strategy that's good enough for 80% of us—it could be written in three bullets on a slide—is what's missing in the accumulation and decumulation phases of retirement right now."

- Given the significant challenges of turning savings into a lasting income, workers clearly need more information before they enter their decumulation phase. Participants wondered if simple best practices could be developed that would sufficiently cover the interests of a vast majority of retirees.

- Workers may benefit from more workplace financial education focused on retirement cash flow. But employers remain hesitant to cross the line into perceived investment advice, as long as it could open them up to liability. More government guidance on the kinds of financial advice employers can offer could help.

- Professional financial advice is out of reach for many workers. One idea was to create a tax credit to cover a session with a financial advisor, integrated into the Social Security process, similar to the IRS volunteer taxpayer assistance program.

2. Are we doing all we can to strengthen and promote Social Security—retirees' most reliable source of income?

Revised Social Security statements are a positive development in terms of educating workers about what to expect, but more must be done to help retirees maximize their benefit. And given how much low- and even moderate-income retirees rely on Social Security, the system must be strengthened for these groups in particular.

> "For low-wealth retirees, the only thing we can do is expand Social Security benefits, because it's the only universal program we have for them."

> "It's very difficult to convince people to postpone Social Security—even when they know it's in their interest—because they are hesitant to draw down their savings balances."

- Called the "cheapest and best annuity" by one participant, Social Security is a powerful tool for strengthening cash flow in retirement. But often beneficiaries fall to take full advantage of their benefit. One study found that the average household misses out on $110,000 in lifetime income as a result of poor claiming decisions, including that of starting to collect benefits earlier than what would be optimal.

- Waiting to claim Social Security pays off with a significantly higher monthly benefit. Delaying from age 66 to 70 alone results in a 32% higher benefit. But few Americans stay on the job until age 70. So, what's needed is not only better guidance but also tools that help bridge retirees to a later claiming age. Taking higher withdrawals from retirement accounts early on—or purchasing an annuity to cover the beginning of retirement—could allow retirees to wait and collect what's in effect a bigger annuity.

> "It's hard, but we need to educate people about the benefits of claiming Social Security at age 70. One thing we can teach them is to partially annuitize their 401(k)."

- A bridge to Social Security is the idea behind a proposal for a new kind of workplace retirement savings plan: Supplemental Transition Accounts for Retirement (STARTs). Funded by employees, employers, and the government, STARTs would be drawn down by retirees before Social Security starts, enabling a later claiming age.[2] Withdrawals would match what the retiree would have otherwise been collecting from Social Security.

"Do you look at something like giving caregiver credits for women who left the labor force for a few years and thus won't have the full 35 years? Can we fill in those zero years with some sort of average?"

- For low-wealth retirees, Social Security will continue to be a primary income source, if not the only one. It can be as crucial for middle-wealth retirees too. Participants discussed ways to expand benefits for these groups, including work credits for time spent outside the workforce for childcare, indexing taxation thresholds to inflation, or a stronger guaranteed minimum benefit for lifelong low-wage workers.

- Black and Latinx retirees are more likely to rely on Social Security for most or all of their income.[3] Strengthening the system as a whole will help address racial inequities in retirement security.

3. How does debt hinder retiree cash flow, and what can be done to counter it?

Americans are heading into retirement with more debt than ever—from mortgages, medical expenses and even student loans.

- Comfort level with debt varies by generation. That makes generalizations about carrying debt into retirement harder to establish.

- Retirees and near-retirees need more guidance around debt-repayment strategies. If a retiree has little in assets, should debt repayment even be the priority?

"For some low-wealth workers, the smartest thing they can do with $25,000 in savings is to pay off debt. The result will be increased borrowing capacity to smooth out shocks. Or will they just borrow more?"

- Social Security benefits can be garnished to collect on defaulted student loans, a practice that can have a harmful impact on retiree cash flow. Participants discussed whether reforming collections practices should be on the table.

"Why should companies write down debts? Companies exist for a reason, and it's not social policy."

- One participant raised the possibility of lenders writing off or relieving debts of financially vulnerable retirees as a form of targeted cash flow support. That suggestion sparked an objection on the grounds that such forbearance isn't the role of private business.

4. Are annuities a solution to the retirement income dilemma, or just another potential problem?

When it comes to creating predictable and sufficient cash flow in retirement, there are clear advantages to the steady, guaranteed income that annuities deliver. To make retirement savings vehicles work the same way pensions do, annuities may be key. Yet take-up rates are dreadful. What can turn around the reluctance to annuitize? And what are the limits to how annuities should be used?

- For starters, annuities need better branding. Two participant suggestions: "income for life" and "personal pension."
- The SECURE Act removed some of the barriers that prevented employers from offering employees the ability to convert some savings to income. It's not yet clear, though, if those safe-harbor provisions have led more plans to offer annuities.

> "The SECURE Act created a safe harbor for annuity selection. It's almost like we called their bluff. But I'm not sure it has moved the needle."

- To get more retirees to create pension-like income with a 401(k), should plans automatically convert a portion of retirement savings to an annuity, while giving participants the ability to opt out? Similarly, the idea of an annuity mandate was raised, although it was considered a tough political sell. Defaulting savers into an annuity, however, is far different than automatic 401(k) enrollment, participants noted. In any case, it's the kind of innovation that must be treated carefully.

> "Whatever we put out there, we have to be cautious about leaving people in a situation which can't be undone easily."

- Another challenge with automatic annuitization is the amount to be converted. Typically, retirees might create enough income with an annuity to cover essential expenses, but, as one participant noted, it's hard to do in every case because individuals themselves are the only ones who know their consumption patterns and what they consider to be essential.
- Collecting a systematic paycheck with an annuity, one participant noted, can affect spending behavior, giving retirees more confidence to spend.
- To help retirees get past a reluctance to part with a lump sum—and even to make a 401(k) annuity default palatable—the idea of a trial annuity was floated. This would allow retirees to change their minds within a defined period and get back their upfront investment, at no cost.
- If new products like trial annuities might have the potential to simplify and extend retirement cash flow, how else could policymakers foster innovation in the lifetime-income space? Participants discussed creating some sort of innovation lab within a federal agency, like Project Catalyst at the CFPB, but legislation would be required to enable it.

- Participants agreed that for low-wealth retirees the proper use of annuities calls for a bit of a balancing act. Locking up a small pool of savings in an annuity leaves little liquid savings for emergencies. On the other hand, locking up that savings can be a protection against fraud, a major concern for low-wealth retirees.

"With only a small amount of savings, annualizing could do more harm than good."

5. How can trends in actual retiree income and spending inform reforms?

Spending in retirement is not steady, and the unpredictable nature of retiree expenses can make planning more difficult.

"The question remains whether lower spending just naturally occurs with age, or to what extent retirees are actually cutting back on basic things and the overall quality of their lives?"

- As a rule, spending drops over the course of retirement, though not necessarily in the first few years. Participants questioned whether that was by choice or because retirees just don't have the money to continue to support their lifestyle.
- The decision to retire is in many cases caused by health, and that may be associated with higher spending early in retirement. Caring for a family member might be a similar trigger. Understanding the reason for retirement could help to explain the spending flow in the first post-work years.
- Certain health-care expenses are impossible to predict, but some—say, dental and vision costs—are known to produce spending spikes. Expanding Medicare to cover those costs could smooth out those spikes.
- The biggest long-tail risk in retirement is the high cost of long-term care, and the fear of those costs may cause retirees to hold back on spending.

"What do unexpected health expenses mean for folks who are not able to afford long-term care insurance and may be reliant on Medicare and, potentially, Medicaid? How do we help address cash flow in that space of unpredictability?"

6. What role can businesses play in improving retirement cash flow?

For low-wealth retirees in particular working longer is an important tool for improving retirement cash flow. Not only does it allow older workers time to build more savings, but it enables them to delay collecting Social Security.

"Aside from avoiding age discrimination, employers can help with the transition from work to retirement, whether it's providing a bridge job or job flexibility, because that's likely to be part of how individuals will improve cash flow."

- Because older workers are able to stay on the job or are even hired late in their work life, many people assume they can remain employed longer than what's realistic. The ability to work longer is not universal—what might be an option for an office worker will not be so for more physically demanding occupations.

- Employers could play a role by creating the kinds of flexible jobs that enable near-retirees to delay retirement. Tackling hiring biases and other age discrimination is also crucial.

- Aside from enabling them to stay on the job longer, employers may have few levers to pull to help low-wealth workers on the cusp of retirement. Targeted financial counseling could help at this juncture, especially as financial advisors tend not to work with this group.

"Interventions help when you're far away from retirement. There's nothing the private sector can do for those who are 60 and have few assets."

Thought Starter

How can we help retirees create income from what might be their most valuable asset: their house?

For retirees with modest savings, a house is likely their largest asset. As such, it can improve their cash flow, if tapped prudently. Reverse mortgages, which allow homeowners who are at least 62 years old to pull cash from their homes while continuing to live in them, is one potential tool to do that, especially for retirees with little in savings. These products are, however, complicated and carry high origination fees. To make them more useful to low-wealth retirees, participants wondered if the limit on borrowable amounts could be more progressive.

What's more, participants wondered who benefits the most from reverse mortgages: low-income or wealthier homeowners? One participant noted that though the industry markets reverse mortgages to higher-net-worth individuals, they are disproportionately used by low-income homeowners. Another question: to what extent are residents of communities of color able to capitalize on rising home values? Recent research published by the Urban Institute found that while more older Americans are tapping home equity to build wealth through cash-out refinancing, home equity loans, and reverse mortgages, a racial gap persists, with Black owners far less likely to extract equity than white owners are.[4]

Reverse mortgages weren't the only option introduced by participants. Widespread adoption of a state property tax-deferral program—which has been proposed by Alicia Munnell, director of the Center for Retirement Research, among others[5]—would also allow seniors to improve their cash flow as they age in place at home. This kind of program gives property owners who are 65 and older the opportunity to defer the payment of property taxes until the home is sold or they die (subject to certain limits). Simpler than a reverse mortgage, property tax deferral eliminates what might be older retirees' most significant housing expense.

ENDNOTES

1 Social Security Administration, "Social Security Statement," 2021

2 The Gerontological Society of America, "Supplemental Transition Accounts for Retirement: A Proposal to Increase Retirement Income Security and Reform Social Security," 2018

3 Office of Retirement Policy, Social Security Administration, "Minorities and Social Security: An Analysis of Racial and Ethnic Differences in the Current Program," 1999

4 Urban Institute, "More Older Americans Are Drawing Wealth from Their Home Equity, but Racial Gaps Persist," 2021

5 Center for Retirement Research at Boston College, "Property Tax Deferral: A Proposal to Help Massachusetts' Seniors," 2017

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