THE BROOKINGS INSTITUTION

NEW TOOLS FOR A BETTER RETIREMENT: DASHBOARDS AND TONTINE SOLUTIONS FOR AMERICANS

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Welcome and moderator:

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Paper Presentation: "A Retirement Dashboard for the United States":

Presenter:

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Discussants:

GREGG McCLYMONT
Executive Director
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ALICIA MUNNELL
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Paper Presentation: "Retirement Tontines: Using a Classical Finance Mechanism as an Alternative Source of Retirement Income:"

Presenter:

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Discussants:

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PROCEEDINGS

MR. GALE: All right, good morning, everyone, and welcome. My name is Bill Gale. I'm head of the Retirement Security Project, here, at the Brookings Institution, well, not exactly here, but at the Brookings Institution. It's my honor to host this event, this morning.

Our basic theme is "New Tools for a Better Retirement." People spend between a quart and a third of their life in retirement, and all of the issues that we think about, with respect to distribution of income, or the status of middle-income households, they all apply to retirement issues, as well. One general way of thinking about the retirement system in the United States is that it has many advantages, but, of course, it has many disadvantages as well.

The problems that it has are largely fixable, though, but they require attention. So, we're focused on two solutions, today. One is called dashboards, and one is called tontines. I will not tell you what those terms mean because you will find out in the next two hours. But, just to put things into perspective, a useful way to think about what we're trying to do is to go beyond the basic point that people need to save enough to have a good retirement. Yes, people do need to save enough, but they need to do a lot more.

They need to manage that saving in a variety of ways. Dashboards and tontines are two ways of managing savings, or helping to make people not only have adequate resources, but utilize them in the optimal manner. So, let me add at the outset that the research here was funded by Arnold Adventures. The opinions, though, are those of the authors and the discussants, and not those of any organization.

Our first paper on dashboards will be presented by David John. David wears many hats. He is a senior strategic policy advisor, at AARP Public Policy Institute. He's the deputy director of the RSP, and he is a nonresident senior fellow, here, at the Brookings Institution. The paper is also co-authored by Grace Enda, who works here, Mark Irwy, and me. I'll introduce Mark later.

After David's 20-minute talk, there will be two discussants presenting for 10 minutes each. The first discussant will be Alicia Munnell. She is the Peter F. Drucker professor of management sciences at Boston College's Caroll School of Management, that's quite a mouthful, and she is also the Head of the Center for Retirement Research at Boston College. More than that, though, more than the official titles convey, Alicia's been a mainstay of a retirement saving world, for four decades. I, and many

others, have learned an enormous amount from her, and her research, and her writing.

The second discussant will be Gregg McClymont. He is currently associated with IFM Investors, in the United Kingdom. He has worked extensively in the pension industry, and he was a member of Parliament from 2010 to 2015. He will offer us a perspective from the United Kingdom, which, as you'll see, has had some ups and downs, with respect to dashboards.

In any case, we are delighted to have both of you discussing these -- our paper, and we look forward to your comments. With that, David, let me turn it over to you.

MR. JOHN: Terrific, thank you, Bill. Let's put on the first slide here, which is the title slide. There we are, and again our -- this is a co-authored paper. Bill, Mark, and I would not have been able to do anything as well without Grace's assistance in this, and the research, and the writing that she did. So, a special thank you to Grace. Bill, Mark, and I do this on a fairly regular basis. Here, let's move to the next slide.

So, what is a dashboard? Bill, very carefully did not define it. So, here we are. It's a tool. It is not a magic bullet. It is not the solution to everything, but it's a management tool found in several countries with defined contribution plans. It's a way to find lost retirement accounts, and that's true, both for defined benefit and defined contribution accounts. It's potentially a way to combine small accounts into your current employer's plan. We'll get into this a little bit later, but this is a rather crucial element here. Frankly, it's one that I discovered myself, when I joined AARP, and tried to combine some of my past retirement accounts into theirs.

It's a tool to track both Social Security or benefits and your retirement plans. Now, certain private sector dashboards, or websites, will allow you to look at an estimate of your Social Security benefits with their retirement plan. What we're talking about, here, is the overall, for all of your retirement plan. It's an educational tool, a source of unbiased information, and potentially a way to lose -- reduce leakage. The premature distribution of retirement money that, all too often, especially with younger people, beings that when they move to a new job, they have to start over again with their savings.

Let's move to the next slide, please. It's not a sales tool, and this is an absolutely crucial element here. Commercial products would not be allowed. However, it would, with the information that an individual can gain from the dashboard, it would help savers to be more informed customers. So, while this is not a direct sales benefit to the private sector, it is something that should make their lives a

little bit easier. Next slide, please.

It also is not a magic bullet, as I said. It is not going to change the amount -- number of Americans who have a retirement plan. It's not going to change the structure of tax policy. It's not going to help people to convert their retirement savings into retirement income, Mark Irwy will talk about that in the next hour, and it's not going to simplify the U.S. Retirement Income System into something that makes much more sense than the ad hoc system that we've got today. So, this is a tool. It is not a total solution. Let's move to the next slide.

As you can see, a variety of countries have already put up dashboards of different types that were similar, and some of them don't call them dashboards. In Australia, for instance, they used it -- use it as a way to consolidate accounts. In Belgium, Demark, and Sweden, it provides information and helps people to plan their futures, here. People access them in different ways. Some cases -- most cases, it's a digital ID. In some cases, there is a central database, then in other cases there is a search function, where the individual logs in and the dashboard sends out a search request to all the providers, for any accounts that meet the criteria for that particular user.

In each case, these -- the dashboard has been structured in a way to meet the needs of the individual country, and we're going to be doing that with the U.S., as we go forward. Let's look at one of these existing dashboards. This particular one is in -- from Sweden. The slides are in Swedish, which is probably about as comprehensible as some of the retirement language used in some of the funds, but this will just give you an idea of what it is. So, this is the opening page in Sweden, and the idea is to get you to log on and move forward. Let's move to the next one. Next slide, please.

Here we are. This is what's going to come up first, and this basically a projection of what your basic retirement would be. So, the little purple bar on the left is your salary. You've got a slider, where you can change your retirement age, and the blue, beige, or whatever color that is, turquoise, that shows you what your pension income would be. Let's move to the next one.

This page shows you all the different retirement pots that you've got, and how much is in each one of them.   Let's move to the next one. And, here, it allows you to make a projection of what your retirement income could be. It gives you a couple of options for how you want to structure your projection, and it also give you different ideas for how to withdraw your money, and then it will give you the graphic to the right of the page, which shows you what your result is. Let's move to the next slide.

In this case, the result after you've done your projection, this tells you what you've got, what you've got from your private pension, what you've got from -- in this case is a workplace pension, the occupational pension is the Swedish version of -- from a workforce, and from the state, and it combines them together. That red bar, with the blue, it shows you what your income structure will be over the years, there. Let's move to the next slide.

Now, one of things that's coming here, and one of the important factors that we're going to discuss, is that a dashboard is not something that's going to pop out and have all of it's features available immediately. This is a projected feature in the Swedish system, that they're working on, and will presumably be available fairly soon. This allows you to plan your retirement in even more detail. It gives you your tax calculations, which is an important thing that we often don't consider. It gives you a variety of different ways and scenarios, that you can create and sort of figure out for yourself what's going to be happening here, as I decide to make retirement plans. Next slide, please.

And this is the one -- this is also coming, there. This is the one that I think is also an essential feature. This one walks you through transferring your money, from one occupational pension, or one private pension, to another. One of the key features here, that you see on the right, is that it makes sure that you have the right -- the right forms, and that the right forms go to the right individual, the right company, in this case. That's proven to be a very serious problem, in the U.S. So, this is the Swedish System, both as it exists, and the last two slides, let me again say, are what's coming, the preview of coming attractions. Let's move to the next slide.

Now, for the U.S., we wanted to figure out what is the value of a dashboard, to the U.S. The first one is to help people -- sorry, we've cats in the background -- find and retrieve inactive accounts and lost benefits, and this is a serious problem that we'll discuss. We also want to provide a comprehensive picture of all the retirement benefits, facilitate the consolidation of accounts where appropriate, that's a key factor, to serve as a central source of educational material and other unbiased information, help people plan, and then reduce unnecessary leakage, to help people understand the long-term effects of taking their money early, and using it for something else. Let's move to the next slide.

Lost accounts are a really serious problem, here. In 2014, GAO, as you can see, found that just in the previous nine years, ending in 2014, people have left roughly 16 million accounts, with $8.5 billion, and that just counted accounts of $5,000, or less. If you added the larger accounts in, that

people had left with their previous employer, you come up to 25 million accounts in just nine years. Now, we don't have data after that, but in the last six years, the use of retirement savings accounts has greatly increased, and I imagine that we would see that this number has escalated rather significantly. So, finding those accounts, and putting those accounts together with what you use -- you have in your current employer could be a very useful function. Next slide, please.

We've got some -- a challenge of consolidating accounts, and this is why that last slide in the Swedish System, to me, means a great deal. This is a hugely complex system in the U.S., especially if you're moving savings from one employer plan to another. When I left my last employer, and decided to consolidate my retirement accounts with my AARP Account, I contacted our provider, and got an email that stretched on forever, in very complex legal terms. I work on this eight hour a day, more than eight hours a day, and I had absolutely no idea what to do.

I had no idea what forms I needed, and actually ended up getting the advice of a professional advisor, who found out that one of my retirement accounts was actually a completely different account than what I was expecting. So, you need the right forms, et cetera, and we can put this sort of information in a dashboard, so that if you have money with provider A, that you've found, and you want to combine it provider B, the proper forms can bought up, you can fill them out, and forward them to the next provider, and we can also add features. We're starting to see already, in some of the fintech areas, that would provide a warning. Hey, guess what, you're about to move into a plan that has much higher fees, and this has an effect on your eventual accumulation, or you're moving into a different risk profile. Are you sure you want to make this move?

It's easy, in the U.S., to move your money from a retirement plan to an IRA, and there are GAO Reports showing that, in most cases, this is not an advantageous thing to do for an individual. Fees are higher, various insundry, other problems, et cetera. So, by putting this kind of information in a way that it can be easily found could be extremely useful. Let's move to the next slide.

So, the key attributes that we want in a U.S. dashboard, it has to be very easy to find and access. You don't have to search around for forever. We require the participation of all retirement plan providers. So, in other words, you will get a comprehensive view of your retirement plans, from all of your providers, in one place. It'd be available free of charge. You don't have to pay for this service. It will require data standardization and methodology standardization, and both of those are -- they sound

technical, but they are absolutely essential. They are also very difficult to achieve. Data standardization simply means that when the data comes from provider A, it matches the way data from provider B is, and the dashboard can display that in one particular way. It also -- having a standardized data makes it much easier to move money from one place to another.

Methodology standardization is equally key because, for instance, when you do your prediction of income, that means that there is one way that it's done, given some possible changes that I might -- I, the user, might choose to make, but I'm going to get the standard answer, there. It has to be secure, meaning that it can't be hacked, and it has to present the information in a user-friendly manner, and the user-friendly manner doesn't mean somebody with 20 years of experience in finance and an MBA in finance, it means someone who is just a basic user, who is logged on to this, and wants to try to figure out what their retirement future is. Next slide, please.

Now, this, as I've tried to mention, this is not easy process. It sounds much easier than it is, and it would be phased in gradually. The scale and complexity of the U.S. Retirement System is a factor of 10 times somewhere in that thing, what the rest of the world's retirement system is. We have more providers. We have more different products. We, of course, have millions more savers than you'd find in many -- any other country, practically. So, this is a big project. We anticipate the industries, or at least segments of the industry, are going to be very opposed to the increased government involvement, standardization, and regulation that's necessary to put this together.

I would argue that the end result of this will make their lives hugely easy, much easier in the future, but in the short run, there are going to be expenses. Cybersecurity is going to be a continuing challenge. This is a race. This isn't a problem you solve. Every time a solution is out there, we find this in just our normal lives, somebody else is going to find a way to go through that, and you're going to have to strengthen it again. So, this is constant worry here.

And last but not least, this isn't going to be really cheap. This isn't going to be something that is going be cost neutral, especially in the short run. So, a source of the funds will be necessary. We believe that this is going to require a substantial involvement by the U.S. Government, to enforce standards to probably provide a certain amount of the funding, and perhaps to host the dashboard. The dashboard could, in theory, be hosted as it is in some other countries, through a non-profit entity, or something along that line. That's something that we can deal with going forward.

And, last slide, please. So, in conclusion, this isn't going to be easy. It's not going to be fast. We believe it would be very valuable. We believe that the pieces of the dashboard would be rolled out bit by bit. This is not something where there's going to be a snap of your fingers, and the entire thing is going to appear. It's going to require determination. This is going to be determination, not only by a government entity to make sure that this is done, and it's done on time, and that it meets the needs, but it's also going to require some determination from providers, from employers, et cetera, to help people to use and understand this.

As I say, it would be achieved in stages, but having a comprehensive plan, knowing where we want to go, to achieve the good that can result from this, is something that's essential. This is not something that we want to go through, and we just simply say, all right, we're going this little piece of it, and we'll figure out where we want to go after that. That really is a recipe for something that is delayed. It doesn't meet its potential in the like.

So, in conclusion, we don't want to oversell this. This is not the solution to the U.S. Retirement System. It is, however, a way to make it better, and it's a way that we can end up with better educated consumers, consumers who really understand what their retirement outlook is going to be, and I would add, especially in the way of taxes, because in the question of taxes, Medicare premiums and things like this, this is something that most people don't necessarily understand, or that if they -- they don't actually have a full picture of this. If can put something like that in the U.S. dashboard, we can help people approaching retirement, to avoid some unnecessary surprises. And with that, I'm going to turn it over to Alicia Munnell, to be our first discussant. Thank you.

MS. MUNNELL: Thank you, David. I'm just going to share my screen. I think I did it. So, I am -- I am delighted to be here, today, and I really enjoyed reading the dashboard paper. Since you're such a talented group of researchers, I, of course, didn't find anything incorrect, in the document, and you're certainly the team that can put together the fanciest dashboard that one could ever think of.

My comments are really addressing whether we need or want such a fancy thing. My critique is two-fold. I think the dashboard goes too far, and based on the written document, not on David's presentation, I think that the impact was -- it's a trifle rosy, but I think David said, not a magic bullet, maybe three times, and so, just take this as a reaction to the -- to the written stuff.

So, the U.S. does need a pension registry, and I didn't -- I've traipsed around with some

of the authors, to try to see if one could get set up. We need a National Lost and Found, since people do lose their accounts, and there's no need for that. I also think the idea of seeing all your sources of retirement income at one time is helpful. People are more likely to cash out small amounts than large amounts. So, if you see you've got a larger amount, you might keep it in the accounts, rather than spending it. I also think it leads to possible better asset allocation, if you can see everything you have in one place, and the data are available. I mean, a lot of these data are available. Social Security, apparently, provides retirees all their accounts, when they retire. I actually have claimed my benefits, and I don't remember getting it, but that's -- that's the story.

So, let me say, but I think this proposal go too far in advocating for financial education and advice, and although David didn't emphasize it in his talk, they were excited about a one button way to consolidate your IRA and 401K balances. So, I think that the financial education effort is a bad idea, for this. I know I work for a university, so, come out -- coming out against education is a not necessarily helpful thing to my career, but it -- I don't think people need it, and the dashboard, the authors' aspirations for the financial education part of this dashboard, just, to me, seem limitless.

It would provide general education material on how and how much to save, how to invest, when to retire, how much to withdraw, the impact of taxes, the pluses and minuses of various retirement income policies, and on, and on, and on, and on. In addition, the dashboard might refer users to sources of personal planning advice, good luck on selecting which ones, and often an array of calculators. So, that just seems too much to me. I'm very basically. I don't think that every American needs to become a financial expert, and I don't like the idea of telling people that they need all this junk, in order to make sensible decisions about their own retirement.

And then on another level, the authors, themselves, cautioned against overwhelming users with too much information, and, you know, I get too -- I'm like every man. I -- when I see all that stuff, I just want to back away. So, it just has to be very cautious in terms of -- in terms of not overwhelming people. And then the authors also note that the more that you go beyond certain and narrow registry, the more that you're going to run into private sector resistance because, in some ways, you will be competing for -- for the eyes that private sector firms are trying to get to look at their websites, which also have advertisements and other things on it.

So, my view is show people their accounts, and then I do like one thing, very much,

which is tell users how much income their pile will generate, and then call it a day. I think this thing is, this transferring piles to income streams, is probably one of the best aspects of the secure act, and I think it should be on your very simple website. So, I think our system, actually, as complicated as it is, can really be maximized with a few simple basic rules. Delay claiming Social Security as long as possible, taking full advantage of any employer sponsored plan, by contributing enough to get the full match, and using target date fund, think of your out -- house as a financial asset. I don't think its rocket science. If people have these three rules, they basically have almost enough to get by on.

So, that's on sort of going too far. The idea of a one button account consolidation just seems dangerous to me. I vote introspection here, but I just laugh at myself because when I got back from Washington, around the turn of the century, I began to think about financial things, and I have a son at Goldman Sachs, and he said, oh, as only sons can say to mothers, you must consolidate all your balances, and at that point I thought, oh, okay, you know, just whatever, and so, I took everything and gave it -- gave everything that could move and gave it to him, and of course I closed my TSP Account, which has sort of like, zero fees, and put it in his capable hands, which has very large fees.

So, I'm supposed to be -- I'm like Bill, or David. I'm supposed to be knowledgeable, and I did the wrong thing, and so, I think if you make it too easy that people are just going to always shift their money away from 401Ks to IRAs, and that is generally, generally a bad idea. Not all 401Ks have lower fees, but most large ones do, and you're going to have fewer regulatory protections, more potential conflicts of interest, and in addition to the higher fees. So, I think anything that makes it super easy for people to consolidate with a single button is really a bad idea.

Then, my second point is don't oversell the impact of a dashboard, which I must say, having listened to David's thing, I feel embarrassed to even criticize in this way because not a magic bullet, not a magic bullet, not a magic bullet, but let me just reinforce that. The lost accounts are really only a small part of the problem. So, David eluded to the GAO number of $8.5 billion being left behind. That's left behind. That's not lost. In terms of loss, the numbers in the paper are some from the PBGC, which have a number of 400 million, some from state unclaimed property tax database, which had a number of 38 million. So, I think if you're thinking of lost accounts, you're thinking millions, maybe a few billion, which is a lot. I don't anyone to have to forgo their share of those billions lost, but this -- what does this add up to? This adds up to $22 trillion. So, just in terms of dollars, we're talking about relatively

small amounts, in terms of the lost and found aspect.

And then, finally, coverage, not leakage, which is what big dashboard, I think, is, if it's going to do anything, is aimed at, in terms of behavioral changes. It is not the source of the low levels of retirement income that people have. This is a figure from a paper that I did with Andrew Biggs, yes, Andrew Biggs, and my colleague, Angie Chen, and what we did is we were trying to figure out why -- the difference between $350,000 and roughly $100,000. Three hundred and fifty thousand dollars is what, if you took a 22 year old in the early '80s and put him in a 401K, and he earned the -- or contributed six percent, employer contributed three percent, they earned the market return, how much would they have? And so, it serves like an Excel spreadsheet. They'd have 350. So, why don't they?

Well, when you look at the 2016 Survey of Consumer Finances, the average person has roughly 100, and so, we looked at coverage issues, fees, and leakages, and most of the problem between -- most of the discrepancy can be explained by a lack of coverage, some due to the fact that 401K is a im -- still a relatively immature system, but mostly that people are moving from job to job, and a lot of the employers do not have a plan of any sort. So, this intermittent coverage is really the big issue. Fees are a slightly big issue, and leakages do erode things further, but it's coverage fixing, even if you have a marginal effect on leakages, it's not going to have a big effect on the -- on the final balances, you know, as David said.

So, let me conclude. The bottom line is yes to a national registry. I will go out and picket for you guys, and say we need a registry, we need a registry, but I don't think you need to clutter that up with, quote, "educational material and financial tools". I think it's just going to -- I don't think it's necessary, and I think it's going to be actually harmful, both to the user and in terms of resistance from the private sector, and I'm totally against anything that makes it easy to press a button and just have everything consolidate. I've -- my argument is let's keep it really simple, and then I guess I don't have to worry any longer about overselling the potential impact of the initiative. So, thank you very much. I am going to turn this over to Gregg.

MR. MCCLYMONT: Thank you, Alicia. Very interesting, a pleasure to be with you this morning, U.S. time, this afternoon your teatime. I thought what I would do is give those assembled a view from the U.K. because the U.K.'s been undertaking a dashboard project for several years now, and really try and give a sense of where that should go up to, where it has been coming from, and actually was not

a pick up on a lot of the issues, which was -- has -- was dated very well and responds to David's paper because perhaps not surprised that there's a lot of similarities, really, in terms of the way the debate has played out in the U.K. between advocates of dashboards, and I say that because there's a debate, as we will come to, around whether there should be one dashboard, as David, I think, rightly sets out, and there's this multiple versions of a dashboard provided by commercial entities, and, which is actual for the debate in U.K., has ended up to a significant degree, and within that, and the debates about the usefulness of financial education, the dangers of transaction dashboards, and where bad decision-making might fall from too much information are pertinent.

So, let me start with the state of play in the U.K. So, the U.K. current situation is, in 2016, the government of the day, Conservative government, announced during its budget that it was going to deliver a pensions dashboard/dashboards by 2019, in three years from 2016. That's now come and gone with no sign of dashboards being delivered, which probably speaks to David's scale and complexity point, because, of course, adjusting for the difference in size of country, actually the U.K. proportionately, as it's fragmented a pension system is the -- as the U.K., as the U.S. Actually, it's number of pension providers and pension plans. So, so, that date's come and gone. The 2016 push came, I think, potentially, from that sense, that financial education, with something to focus on very significantly, and that pensions dashboard would enable individuals to be much better informed, and they, therefore, make better decisions about the pension.

In fact, the 2016 push came from the Financial Conduct Authority, who are the regulators of retailed pensions in the U.K., not of workplace pensions, and as a financial services regulator, their mandate is actually to make competition work, in the interest of consumers and the markets, which they regulate. So, they always tend to focus on financial education, on greater provision of information to individuals as a way to reduce information asymmetries, a view which I, personally, think intentions probably similarly to what Alicia was saying. It's pretty optimistic, shall we put it politely, optimistic, our view of -- a view of pensions on the individual, and so, that was the background.

We know legislatively where we stand now is the government's pensions bill has made its way through one part of Parliament, the equivalent Congress. It's still to go on to the forward of the House of Commons, and actually it's been quite striking in its passage through the House of Lords. They're revising the supervising chamber, where things tend to be debated in a bit more detail, and with a

bit more technical competence. The government's really had a rough time on two points, in particular.

Firstly, and probably really importantly, to David's point around trying to ensure that this isn't captured by the financial services industry. The government's been very keen, and has Conservative government since 2016, to have dashboards delivered by the industry, not necessarily or in actuality by an independent government or quasigovernment entity. They've been really keen to pass it off to the industry, and in Parliament, it might've been pushed back, at least in the House of Lords. It may have changed in the House of Commons, and then they, you know, reinsert these clauses, and but pushed in the House of Lords to absolutely commit to a public version of the dashboard, and for the public version of the dashboard to be in place first, before any mirroring dashboards, you know, provided by commercial pensions providers and others, are made legal.

So, that's been a push from both opposition politicians, but also actually from members of the governing conservative party in the House of Lords, peers, and alongside that, push for a -- not for a public dashboard, also, amendment passed in the House of Lords to disallow transactions, to David's really interesting slide about the Swedish system, and evolution, and the possibility of consolidating your pensions. Again, the House of Lord's very keen. The system gets up and running with a public option version and with transactions not enabled to take it closer in sum to the register, which Alicia talked about, and that Alicia talked about.

And now, I think in the end, the government will revert to the status quo ante. It will push for multiple dashboards with commercial entities playing a significant part, and that represents a lot of the energy behind the campaigning for dashboards, has come from pension providers, the equivalent of the 401K provider in the U.S., but in the U.K., see an opportunity to gain market share off the back of their investment in digital capabilities. They think they would have an advantage there. I think it's likely that that's where the dashboard link lined up, you know, returned to that position, and what you see broadly is that tension between an idea which in some hands, in David's hands, and in the U.K., in the hands of people, like the people's pension and nest.

The two biggest not for profit providers would be a register that would allow people to bring together, you know, pots, which have been stranded in the midst of an autoenrollment system, and the U.K. coverage, of course, is not so much the issue now, with autoenrollment of the private sector workforce. It's actually contributions, but also the proliferation of these multiple pots, as people move jobs

where the pot stays behind, and so, in some hands, the version has been along the lines David sets out, and a version which is very cognizant of the challenges that Alicia set out. So, a public option, and make it about a way to improve the plumbing of the system, try and bring down the overall system costs by making consolidation easier, increase individual's awareness and understanding of their pensions, and perhaps then their engagement defined as making a decision but being very cautious about that.

And then on the other side of the scales, on the other side of the argument, you have a view which is much more comfortable with driving financial education via dashboards on the basis that that will enable individuals to make better decisions in aggregate about their pensions, and I guess just to take it forward a little bit in the last couple of minutes, David's slides, you know, really astute because very familiar from a U.K. perspective.

So, when you get down to the technical detail, and I don't -- from what David said, it doesn't seem to be the case in the U.S., but in the U.K., a really big challenge is that the government has sold the pensions dashboard to the public, and it is a seductive idea, and -- on its own terms, you know, a one-stop shop to be able to understand and look through and view all your pensions information, has it's been sold to the public as that being the case, but I think politically, certainly in the U.K., that rubs up against the challenge of the gradual onboarding of data because I've certainly wrestled in my own mind with will the public be turned off immediately from pensions dashboards?

If they find that the actually can't see all the pensions in one place, they'll put partial information rather than full coverage, and I think a gradual staging of the data obviously takes that political communications challenge, if you all want to call it that, and in the U.K., that's particularly the case because lots and lots of pensions in the defined benefit corporate side remain undigitized, and beyond that, in the public sector pension space, again, undigitized, and a real enormous challenge to, actually, to get that data in a shape for it to be transmitted to, you know, an individual's dashboard, to David's point about data standardization and methodology standardization, and I think in the U.K. it's a real challenge, to the extent, you know, the public are aware of pensions dashboards and they mostly aren't, and to the extent they are, and they -- the -- it's been sold as this will be created very quickly, you'll be able to see everything in one place, and it was a real challenge to find whether that's the case.

My sense is that where the government has moved to now is that they -- they'll look to do a long beta phase, rather than a gradual staging live to the public, if that makes sense, so, and there's

increasing understanding that partial coverage on the dashboard is going to create some significant communication and trust challenges with the public, and I think that point is really worth making.

So, I'll just finish. I'll finish on those points, very similar -- familiar to me from the U.K., as David set out, both the potential benefits and the challenges, but I would expect in the U.S., if it's to be anything like the U.K., you will find commercial participants, and as it develops, trying to, you know, push the direction of travel in one which is more favorable to their interests. I guess that wouldn't surprise anyone, and certainly underpinned, rhetorically at least, by the view that financial education can really make the system work better, and my own view is that that's probably best unproven, and I think in the U.K., we're some time away from seeing the dashboard. It's now, what, the second half of 2020. It's not moved on very much from where it was maybe 18 months ago, and it probably speaks to the scale and complexity challenges that David has spoke to very eloquently.

MR. GALE: All right, thank you, Gregg and Alicia, and thank you, David, for those comments. Let me remind the people who are viewing, if you have questions, you can send them to events@brookings.edu, or you can use the Twitter hashtag #retirementsecurity to send us questions or comments. Let me start just by asking David if he wants to respond to anything that the discussants said?

MR. JOHN: Yeah. I've got a couple points I'd like to make. First off, I think that these comments from both are incredibly helpful and useful. One of the things we don't want to do is to jinx this by promising too much or by basically confusing the issue. Again, this is a tool. It's not -- it's not the solution, but it's a step towards. Let me address two things in particular.

One is the question of the one button, and the one button is something that we put in the paper. It probably won't be in the final version. As a matter of fact, I can pretty much guarantee that it won't. It came up from a demonstration that Mark and I were a part of, gosh, that must be eight years ago, from a provider in Edinboro, Scotland, actually, that did have a method of combining accounts with one button in their demonstration. I think, on retrospect, and it's far more valuable to provide the right forms, help people to fill out those forms, and then make sure those forms go into the right location.

Speaking from personal experience as I say it is frightfully easy to move retirement money from a plan to an IRA, which very often is not a good idea. So, making it easier for people to move money from one retirement plan to another, with appropriate guidance, here, seems to me to be far

more valuable than the one button approach.

Number two is the question of information, and in this one, I think I'm going to push back a little bit. Ideally, we have an automatic system, which allows you, basically, to set it and forget it. I mean, I know nothing about my auto engine, except that I drive it to my mechanic and pay far too much money, on a regular basis, and I don't need to know, but the information is out there, and we know, for instance, the U.S. government has a wide variety of very good information that's scattered around in a variety of locations. So, providing one central repository for that information would probably have some value.

The other thing is that I think there's a value to a company in this. Right now, the companies are spending loads of money providing what is essentially duplicated in the government information, and if they don't have to provide that, if they can focus on other things that they're actually more there -- in their wheelhouse, I think that's valuable, too. So, I think that having information there, presented so that it can be found, which is a key factor here, I agree with Alicia completely on that, has value, and with that, let's go on and see what our other discussions are.

MR. GALE: All right, thank you. I want to come back to something that Alicia said, that, you know, the retirement system should be simple, and I have a lot of sympathy for that. As David mentioned, you don't have to know how an internal combustion engine works, or an electric engine works, to be able to drive a car, and you shouldn't have to be, you know, a financial expert just to get through retirement. So, that makes sense.

On the other hand, almost all simple rules of thumb in retirement financial planning have issues associated with them. For example, claiming Social Security as late as possible is not a good idea for people with low life expectancy. Using a house as an asset is ideal if reverse mortgage markets worked, you know, functioned efficiently, but they're pretty bad deals in a number of respects right now, and it feels to me that it's more like medicine than driving a car, and that -- that there are good ideas, there are healthy ideas, healthy things you can do, and there are good financial planning techniques, or good rules of thumb, that you can follow, but everybody is in a unique situation, and the unique aspects of their situation, whether it's medically or financially, seem really important. So, I don't -- a question, I guess, for Alicia is how do we -- how do we deal with that while simultaneously keeping this system as simple as possible? I think you are muted right now.

MS. MUNNELL: I definitely agree with you, that if you have a terminal illness, you shouldn't wait to declaim Social Security benefits. So, it -- this is -- of course, everybody's system is -- everybody is unique, but I think that there's some just general rules, and I don't think it's a good system. I think the fact that we don't have universal coverage is terrible, and I don't think everybody ends up with what they need, but I don't think financial planning is what they need. I think we need to take steps to try to make this system better.

And even going back to David's point that we should make rollovers easier, oh, my god, I agree, we have the craziest system. The new company doesn't even have to accept rollovers from the old one. There's no standardization in forms. There's no time constraint. There is nothing. We should definitely fix that. My question to you is, is the place to fix that on the dashboard, or do we just want a simple repository, where people can see their files, and I think very importantly, how much income those files will generate.

MR. GALE: Great. David, maybe you can -- and Gregg, maybe you can weigh on this. The notion that the government, the U.S. government, can do this raises a lot of eyebrows. There are, you know, more than a dozen agencies that deal with financial planning. The most obvious, if you were abstracting from the details, the most obvious place to do this would be the Consumer Financial Protection Board, but they're prohibited from dealing with retirement issues. DOL, Treasury, Social Security, everywhere there's this great amalgam. How do we cut through all that and make something like this happen?

MR. JOHN: Gregg, do you want to start with that, or --?

MR. GALE: Oh, you're muted.

MR. MCCLYMONT: No, go ahead, David.

MR. JOHN: All right, well, first off, unfortunately, the regulatory system for retirement in the U.S. mirrors the overall structure, in that it's been done on an ad hoc basis, that, well, let's create this, this sounds like a good idea, regardless of how it fits with everything else, et cetera. It makes perfect sense to start to centralize the regulation of the retirement system in one location, whether that's CFPB, whether it's Department of Labor, Department of Treasury, or the host of other potential contenders for the title. This, this needs to be done regardless, as does the -- the simplification of this system. I would regard the dashboard as a step towards that. Over to you, Gregg.

MR. MCCLYMONT: Yes, I think that if Bill doesn't mind, I'll probably make a different point, which I think strikes me from the conversation. I guess, in the U.K., my perspective in the dashboard has always been, I guess, influenced by a concern, and that is a way in which the side of the argument which is very keen in talking about financial education incisively, and has a mechanism for doing so, potentially at the expense of the structural reforms to the system that I would argue take precedence, and I guess that's always colored my view of the issues.

So, you know, if I will -- no one can object to a straightforward register. I don't think, you know, if they object to a straightforward register, it seems sensible. Certainly, in the U.K., we have the debates going with the greater emphasis on financial education and allowing individuals to make choices. It's always worried me that that might come at the come at the expense of structural reforms, so probably worth making that point, because it probably underpins my view of these issues.

MR. GALE: Great. Let me just ask one more question, and about the experience in other countries. David, you showed us one dashboard. Do we know, has this -- you know, has providing these various services helped people? Has it -- are the dashboards -- you know, do people use the dashboards? What do we know from other countries that might give us hints about how effective the dashboard might be?

MR. JOHN: Well, Gregg, you've actually written on this, haven't you?

MR. MCCLYMONT: Yeah, happy to, quickly. I mean, I think the evidence says -- the evidence is pretty limited, I would say, of impact, but that's maybe determined by looking for the wrong thing. I think if one's looking for increased awareness, then when you look at the Dutch, the Danes, the Swedes, you probably see that in a modest basis, but beyond that, in terms of actually changing what people do, I think it's probably harder to see evidence, and it is worth emphasizing and I often speak to David, that he knows this very well, of course.

I mean, the systems are very different. If you take those three systems, they are much more consolidated. I mean, the difference between those three systems, and the U.K., and the U.S., and the other side is enormous. I mean, they've got a lot more consolidation and scale at the fund level, at the plan level, and which, of course, makes the gathering of the information more straightforward.

So, I'd sum up by saying that I don't think I've heard anyone that it, you know, it wasn't helpful to have a register, but equally, you haven't heard much that it's transformed, you know, the

pension system in any significant way. That might be a function of time, that they've not been gone very long, and, but, yeah, probably modest impacts.

MR. JOHN: We do have participation figures from some countries, Sweden in particular, which shows a very substantial use of the dashboard. Now, this comes after Sweden has included a retirement savings module in its Social Security type system also, which I think has gotten people used to this. I see this as a tool that is likely to be increasingly useful as we go forward a defined contributions savings system. So, I agree with what -- everything Gregg has said, and much of what Alicia has said, but I think this is something that, as we go forward, this will prove to be even more useful than it immediately appears. Do you want to --

MR. GALE: All right.

MR. JOHN: -- get the last word?

MR. GALE: Alicia, did you want to add anything?

MS. MUNNELL: Yes. I think we should have a Swedes design ours, a registry.

MR. GALE: Excellent. Excellent. Thank you, and always good to end on a constructive note. So, thank you, discussants. Thank you, David. We will now turn to our second paper, which is another area where the U.S. is behind the rest of the world, and that is retirement tontines. The paper is written by Claire Haldeman, who's at the Brookings Institution, David John, Mark Iwry, and me. Mark will do the presentation.

For anyone in the retirement world, Mark needs no introduction, but I'm going to give him an introduction anywhere -- anyway. He's served in numerous positions, in particular as a deputy assistant secretary, the lead treasury official on retirement in both the Clinton and Obama administrations. Of his many awards, the most recent is the 2020 Alumni Public Service Award, given by the Kennedy School of Government at Harvard. He is, of course, a nonresident senior fellow at the Brookings Institution, and I will just add, and this is not an exaggeration, I do not know anyone who knows more about the retirement system than Mark does. So, we are looking forward to his comments.

We'll have two discussants. Anna Rappaport is an internationally recognized expert on retirement systems and workforce issues. She was at Mercer for 28 years, and now runs her own consulting firm. She has won several lifetime achievement awards as well, and she works extensively on women's retirement issues, in helping job options for older workers. Our second discussant is Jon

Forman. He’s the Kenneth E. McAfee Centennial chair in law at the University of Oklahoma. He has written extensively on tontines and, for that matter, on a variety of other issues, and he’s co-chair of the Washington-based Retirement Income Institute, which focuses on the use of annuities as a retirement income tool. So, we are delighted to have both discussants, and with that, I’ll turn it over to you, Mark.

MR. IWRY: This is a session based on the paper that like the Dashboard paper, we've been working on and expect to put out very shortly. And the particular contribution I'd like to recognize among my co-authors, Bill, David and Claire is Claire's. Claire Haldeman has done great work here, research analysis and writing so kudos to you, Clare, thank you very much.

The topic, “Retirement Tontines: Using a Classical Finance Mechanism as an Alternative Source of Retirement Income,” starts with -- it starts with this fundamental dilemma. How do we convert our savings to income in a retirement world dominated by 401(k)'s, IRA's, and accounts that do not provide an income payout on their own.

Particularly difficult dilemma given the uncertainty about how long the individual is going to live, what the retiree's health costs or investment returns are going to be, the rate of inflation, all the rest. So, planning how to spend down the savings that you've accumulated as we've all been discussing for some years now, a key dilemma that continues to require attention in our retirement policy and market efforts.

There's the twin risk here of spending too fast, burning through your assets and outliving them in retirement versus the risk of hording. The risk of not spending as much as you could have and thereby denying yourself the kind of standard of living that you've earned by saving or accumulating as much as you have. And Anna Rappaport, I'm looking forward to your comments and John Forman, your comments afterward.

And one of the things, Anna, that we've talked about before is how this risk of hording and the resistance to spending on the part of retirees has been discovered very graphically by your society of actuaries work. So, I'd love to hear some more about that that retirees are very reluctant to dip into principle and actually spend down very much.

Now given this dilemma what can you do, there's do it yourself, but most people need the help of a professional to convert the savings to a flow of income. And to know how quickly they can and should draw down that income given their particular objectives and needs.

We have, of course, defined benefit pensions that do this that they pay the income, they tell the individual with certainty how much they're going to get. They guarantee that it will last for a lifetime no matter how long the individual lives. But, of course, they are famously diminishing in our system, the defined benefit plans.

So, an alternative is the commercial annuity which permits a 401(k) or a DC plan which would otherwise be unable to promise benefits to last a lifetime on its own. And would otherwise normally not automatically pay out a certain amount that's guaranteed. The annuities enable a DC plan by purchasing commercial annuities to perform these functions to give people lifetime income.

And they are a great solution but one that can come in a relatively complex or less transparent form. The costs can be high or hard to ascertain for the average consumer. And so, the annuities have not had as much takeoff as one might have expected or hoped. I do think that they'll have more takeoff increasingly so given the secure act boost that was recently provided to annuities and defined contribution plans in last years legislation.

Now another option is managed payout funds. We wrote about that last year, the same group, and we think that that is a very promising idea. The idea that while it's not a guaranteed income flow like an annuity, there is a promised or a targeted, I should say, income flow that professional asset managers provide, monitor, oversee the investments to produce et cetera. And that has a great deal of promise but is not yet all that widely available. It's getting there fast, I think, with a lot of new products.

So, there seems to be still room in our system to explore additional elements of this work in progress retirement income solution set. And one of those additional elements that we think is particularly intriguing is survivor income pooling. As a potential tool to help generate a flow of income from a pile of assets and generate a reasonably predictable flow of income, although not entirely predictable and not guaranteed, and adaptable to a variety of structures.

And I say that particularly thinking of John Forman, your and Moshe Milevsky's and a number of other peoples, Richard Fulmer, Mike Sabin's excellent work. Exploring how the survivor income tooling concept, also known as tontine type structures can be used in different kinds of vehicles. Investment pools, individual accounts, pensions, IRA's perhaps, various other things.

So, the investment pool essentially works like this if it's a tontine type of pool. It pays death benefits when any of the members or participants in the pool dies to the other members. Instead of

the death of a participant causing a payout to that person's heirs or designated beneficiaries as is the case typically in 401(k)'s or other DC plans or DB plans.

In a tontine type investment pool or tontine type structure, the core idea is that the participants share the death benefits with the other participants. If somebody in the pool or when somebody in the pool dies, both the assets that they have in the pool and whatever income rights they have in the pool are reallocated among the other members of the pool rather than to the designated heirs, including the potentially surviving spouse of the individual member.

So, this means if you die early relative to the others, you end up being a net contributor to the pool. You've invested, you put some money in, you died pretty early and a little like the fear of buying an annuity and then getting hit by the proverbial bus the day after you bought it, you may end up having gotten a relatively little for your investment by way of payouts.

Alternatively though, if you die later than many other people or later than expected, you can be a net receiver of benefits. That is the mortality credits, the credits that are generated as death benefits arise when people die and are allocated to the survivors. Which in this scenario where you're a long lived person, you're one of those survivors for a very long time.

And because of this structure, you need an irrevocable commitment when people do invest or buy into the pool or the plan so that they don't -- if they get a bad diagnosis, for example, and realize that all of the sudden their days on this earth are numbered, they don't pull out of the promised sharing of death benefits with their co-investors.

Now the potential upsides of this mortality credit pooling or tontine like pooling is that it does reduce the risk of outliving your assets because you have a continued inflow of the survivor or the mortality credits as your peers, your co-participants pass away. The inflow could serve as a rough hedge against possible investment losses and the pool could be invested in various ways. It could be invested very carefully and conservatively to generate a predictable flow of income or it could be invested for more growth. And that’s another potential advantage, similar to a managed payout fund, that similar kind of investment flexibility.

There is no contractual guarantee of the amount of the income and that's both a pro and a con. It's a con in the sense that there's one element of certainty there that an annuity provides, a fixed income annuity telling you, you will get X dollars a month for the rest of your life. Similarly, a defined

benefit pension promises that.

With a tontine like pool, you get a fair degree of confidence that there will be continued income in all likelihood for your entire life. Very unlikely that anyone will outlive it but the amount is not guaranteed. It will depend on investment returns and the other uncertain factors.

The upside of this lack of guarantee is less need for regulation as opposed to commercial annuities. You don't need to capital reserves. There's not an extensive regulatory apparatus that requires investing in a relatively conservative fixed income oriented way with substantial reserves set aside for a rainy day. Here with the tontine type structure, it can be lighter, less regulated and therefore less costly potentially. It could have a cost advantage and a transparency advantage compared to the commercial annuity market.

Obviously, that depends on the specifics of how it is set up and what kind of annuity like a fixed income annuity you're comparing it to.

SPEAKER: Mark, we're at 5 minutes.

MR. IWRY: Great. The survivor contingent payout is something that has attracted a lot of notice. The notion that some of the potential survivors might want to eliminate the survivability of other potential survivors has led to a lot of drama in the world of fiction and movies. There's a Simpson's episode, et cetera, about the perverse incentive for murdering your co-participants. We don't think this is serious.

Most of these tontine like structures when they have been implemented and they have been quite extensively in the last four centuries really in Europe and to some degree in the U.S. Have involved large numbers so people don't have an incentive to go after their co-members often don't go until the last person is surviving but will terminate when there's still a lot of survivors. And this is a pooling of mortality credits that really goes on in commercial annuities as well.

Now several challenges here. One is that because the death benefits are shared by a shrinking class of survivors over time, those benefits increase so that this throws off, if you're using it for retirement income, an increasing pattern of income. Which is not a good match with what retirees typically need and want a more level or maybe even slightly declining income in retirement.

So, to level it off, there have been two, at least two basic approaches. Moshe Milevsky and co-authors have suggested you can invest in bonds that are structured to pay a declining income

from the investments and that declining income when combined with the naturally increasing income from the death benefits, the mortality credits could average out to something pretty level. And you could even revisit the amount of that investment income to some degree each year depending on the actual pattern of deaths.

Alternatively, John Forman and others have suggested you could get that same leveling of the total income from a tontine like structure by repaying the amount that people invested. That is repaying the principle amount in increments over time in a decreasing pattern to offset the natural increase. And one of the potential downsides of these leveling's are that it could get complicated in practice.

Now another challenge is achieving equity in a simple way. If every member of the pool had the same life expectancy, then it would be equitable. But if you structured a pool to be homogenous like that, people of exactly the same age and other characteristics determining life expectancy, it might be too small to take advantage of the law of large numbers.

On the other hand, if you made it heterogenous, life expectancies could differ, would differ and you would have to worry about the risk of disfavoring people who joined when they were older or who joined as members of groups or with characteristics that have shorter life expectancies.

So, one way to deal with that would be to adjust the credits that they get or to adjust the number of shares or fewer units that they get in the pool. Or just the price they pay in order to buy shares or units so that you avoid disfavoring people who enter with a shorter life expectancy than others.

Now to do this death benefit pooling, you don't want to have a bequest need or motive with these same funds. So, if people want to leave money to their heirs, to their surviving spouse, their kids, et cetera, then they want to make sure that they don't put everything into a tontine like structure. But rather take care of your bequest motive if you're lucky enough to have more than one part of your portfolio with other parts of your retirement assets.

Now some people will say no, I'm going to leave it to my spouse, reflecting the importance not only personally for many people but in our pension system of protecting spouses. The spousal rules, joint and survivor annuities in pension plans, the spouses right to get a death benefit in a 401(k) unless he or she waives that right when the participant dies. Those protections can still be reconciled with a tontine like structure.

First of all, you could go into the tontine just for a portion of your portfolio and use most of it or a large part of it to provide protection to a spouse or for other heirs. You could also have rules like joint and survivor or spousal consent rules that are integrated into a tontine like pool. And you could even treat a couple, a married couple like a single member of a tontine type pool with a rule that if one of them dies, the other one gets their benefits, their death benefits. But when the second spouse dies, then like any other member of the pool, at that point any remaining benefits are shared among the other members of the pool.

Now quickly to move through the rest, the history of these tontines has been quite colorful. They've been used to finance wars in Europe in past centuries. Alexander Hamilton proposed to use them to pay off Revolutionary War debt in the United States. That was not accepted as a proposal.

And in the late 1800s, early 1900s, tontines in the U.S. became a huge insurance product related to life insurance coupled with it. And actually, one of the most popular financial products in the U.S. until massive corruption in the management of those products within the financial service industry led to a prohibition of the kinds of products, tontine type products that they were mismanaging at the time. This was early in the 20th century and that's cast a shadow on the legality every since.

It's sort of a mirky picture, are these things legal or not and we think that in general, the concerns about that are overstated that in fact there is not that much on the books in terms of state law in a couple of states. But most states don't explicitly prohibit tontines nor does federal law. But New York prohibits tontines that don't pay out at least once a year.

And there are therefore prospects, we think, and we'll talk about this in the later part of this session for this kind of mortality pooling in the U.S. that would not run afoul of the law. That may require getting past the T word, the use of the word tontine, which still might spook a lot of people and raise questions about whether it's legal and to focus instead on survivor benefit pooling or mortality credit pooling.

So, to wrap up, it's still early days in exploring the potential for this. These structures are getting attention around the world. Different countries are exploring and have used tontine inspired structures although often they don’t call them tontines, sometimes they do. They have the potential to be very transparent and traceable in something like Blockchain or other new technologies may be key in supporting that particular attribute.

They do have a tradeoff between the guarantee of the income amount that an annuity, a

fixed income annuity would provide which the tontine type structure does not. Versus the still relative assurance that you'll probably almost certainly keep getting income for your entire life under one of these pooling structures even though the amount may not be -- would not be guaranteed and may therefore not be all that reliable. That will depend, of course, on the investments and on the actual experience.

So finally, the market penetration, what are the prospects, uncertain but we think that there is real potential and that this could be an attractive retirement income tool to add to our array of options for income management. I am looking forward to your comments, Anna and John, and now let me turn it over to you, Anna.

MS. RAPPAPORT: Thank you, Mark. I want to share with you a variety of comments. Tontines offer a very interesting addition to the portfolio of possible retirement income solutions. This is a good paper. However, if tontines are voluntary, it seems unlikely that they'll be chosen very much more often than annuities. That's a very interesting question.

And I would add to say that income solutions and defined contribution plans are indeed a major topic of importance today. This paper is very important as it brings different solutions to the table. Are we still sharing Mark's screen? We don't need to share mine.

MR. IWRY: I don’t think so.

MS. RAPPAPORT: I'd like to start with consumer preferences and decisions. The society of actuaries has conducted a number of surveys in focus groups to understand how retirees are thinking about using their assets to provide retirement income and how they're planning for retirement income.

And these focus groups and surveys provide important insights about the choices with regard to retirement assets. In focus groups with retirees that were within 10 years after retirement, we asked them about whether they wanted -- how they were choosing to spend their money, did they like those drawdown products, did they like annuities, how did they feel about them.

And the respondents told us, no, no we were asking them the wrong questions. The respondents said they preferred to keep their assets. They didn’t want either because both of them involved trying to spend down their assets. They didn't want to spend down their assets.

In fact, most of them used the required minimum distributions. But an interesting thing that surfaced in these focus groups in this research was that the required minimum distributions, apparently

people don't think that's spending down the assets because it's required.

So, when we asked them about providing for different risks in retirement which we did in a later set of focus groups, we were concerned about how are they planning for risks. We did that actually in both those and later ones. They said, oh well they'd handle that when the risk occurs. That worried us and then we started to focus on shocks.

But we found that, in fact, at different stages in retirement we did both surveys of retirees but also focus groups for the under 10 years, over 15 years after retirement and research with 85 and over. People were trying to keep their assets and not spend them down and retirees were more willing to reduce spending versus drawing down the assets. That's what Mark mentioned and they're resilient.

And consistent results have been found in various studies and I think some of the work that other researchers have done with the HRS tends to show also people trying to hold onto assets. I would add to say that consumers don't like to make irrevocable decisions that give up liquidity, bequests and control of assets. And I don't see that tontines would be very different from annuities in that regard.

With regard to planning for spending, we found some other things in our research that are very important. Planning is largely short term and often very cash flow focused. The expected expenses are considered but they're usually the regular expenses. People think about I have to pay my insurance premium, not I have to pay the deductibles. But irregular and unexpected expenses often are not considered in the planning. We also found that retirees are reducing their expenses gradually over retirement if you exclude healthcare costs.

So, my expectations are that tontines probably wouldn't be more popular than annuities because of the irrevocable decisions to commit assets. But they might be more popular because of a higher expected payout.

So, I'd like to focus us now on the big picture from a different point of view. As Mark mentions, spousal protection is an issue and it is very important. As part of the society of actuaries researched a number of years ago, we realized that for people in the middle in America, the value of their house is a lot greater than the value of the financial assets to many, many people.

This is a critical issue and a big question for some of those retirees also might be, should I pay off my mortgage versus choosing a tontine or an annuity and I think often that might be a good choice. More work is needed than that.

It was mentioned earlier too, late Social Security claiming is important for many people. Social Security is the largest source of income and late claiming offers a good strategy to increase retirement income. So, another question is comparing that with a tontine. But my view is that it will usually be preferable to claim late first before you think about increasing income through a tontine.

The vast majority of the population also don't have long term care insurance. And liquidity is hugely important to this group as is asset preservation because they may need that money for long term care and that's a different issue from the bequest issue. So, you really need to think about this big picture total population.

I would say for the bottom quarter of the population, they don't have much financial assets anyway so this is just not an issue at all. For the top segment, they're probably concerned about some other issues rather than guaranteed income. And this is really an issue much more for the middle and they, of course, have a variety of unexpected assets that could require -- unexpected expenses that could require assets. So, they certainly wouldn't want to commit all their assets irrevocably and they are faced with these major tradeoffs.

But we're talking, I think, about a primarily middle income issue and this would probably be much more attractive for those who do have a longer term financial plan and are thinking longer term. It also might be attractive to higher income individuals who want to increase their income and would use this for a portion of their assets and that might free them up to be riskier in other things.

I want to focus now on the issue of consumer protection. We heard that regulation would be simpler and it may well be. But consumer protection is critical. Any time there is a pool of money someplace, it's vulnerable to misappropriation and misappropriation is no less likely from one pool of money to another if it's not properly safeguarded.

And the problem is not that everybody are crooks but the crooks no where to look for -- the crooks find out where to look for the money that doesn't have high fences around it. So, the consumer protection needs to include fiduciary responsibility, also disclosure requirements. Depending on how choices are made and whether there's persuasion involved protection against bad sales practices, probably investment guidelines of some sort, protection against fraud.

Insurance is regulated by states and capital requirements include provisions for capital considered systemic risk. That's the risk if we all live three years longer than that means that because we're all living

longer, we need more money. Annuities guarantee against this, tontines would not guarantee against this systemic risk. That would be spread amongst everybody.

A risk of plans are regulated at the federal level. So, tontines eliminate systemic mortality risk but they need to be in a financial arrangement with consumer protection. Will it be simpler and cheaper to regulate, potentially yes. But the more choice in fairness that you pool into the system, the greater the need for consumer protection.

Bankruptcy is unlikely in a well-managed fund but any financial arrangement is vulnerable to misappropriation. And the more fairness the more complexity, the more choices that there are with regard also to investments the more potential for investment losses. If it's in a risk plan that might solve much of this but let's not just assume simple regulation.

Would tontines be cheaper than annuities, there are a number of things we need to think about. Annuities offer a profit to the insurance company. Depending on who manages the tontine, there might need to be a profit or not. You need a large enough pool and the larger the pool the lower the administrative costs. But there would be some administrative costs, no costs for systemic mortality risks and the supporting capital requirements.

But if the tontine is managed by some kind of a financial group, it still probably has some capital requirements. Also, some annuities are individual, some on a group basis, big difference in cost. And the same may be true there and if tontines were voluntary and sold on an individual basis, it certainly via communication and distribution cost.

So, until you start figuring out all those little details, how much cheaper, would they be cheaper is the question. On fairness, I think there's no magic definition of fairness and we know this would be a complicated question because we know that groups with higher mortality have radically different lengths of retirement then the groups in the lowest mortality. And there's a lot of political and other issues about what differences we put into that.

So, I'd like to just again, commend the paper and say I think this is an interesting addition to the portfolio of income choices. But there's a lot of things to think about and I don't think it's going to be necessarily more popular than annuities. The big issue would be would it be a default in the qualified plan, that would make it, if it was default option, that would make it truly more popular.

The whole irrevocable decision issue means people would need to have very careful

information. They would be giving up liquidity and bequests. Is it better, depends on the situation and thank you again for this paper. I'm going to turn it over to John Forman now.

MR. FORMAN: Thank you, Anna. Let me share my screen here. Is it sharing?

MS. RAPPAPORT: Yes.

MR. FORMAN: Thank you. Okay. All right, so Mark, congratulations also on your award for public service out of Harvard. That's very impressive. And thank you, this is a really wonderful paper on retirement tontines.

So, retirement tontines are a way of using tontines to provide retirement income. What I really like about this paper is how objective it is. I've written in the area but I'm usually advocating for a type of tontine or for a tontine solution. The authors here are very objective and the cover all the high points and then go into quite a bit of detail explaining how tontines work.

So, the key points really are tontines are fair bets to the investors. Now it's pretty easy if everybody is 65 years old and certainly everybody on this panel is no older than 65. So, if we each throw in $1000 into a pot and one of us dies, then we divide the $1000 that maybe I threw in if I die first gets divided among the rest of the panel. And that seems like a fair bet if we're all the same age.

Now a tontine could cover people of multiple ages and multiple other characteristics, multiple amounts of investment, different amounts of investment and then we'd have to have an algorithm to solve those problems. It's not hard with Excel and computers.

But what's happening here is there's mortality credits. When somebody dies, the money that was contributed by them to the tontine is divided among all the survivors. Now if the group of investors is say me or even the panel, but then with 40 students of mine, they're 25 years old. So, a 65 year old life expectancy is about 18 years for a male. But a 25-year-old male has a 52 year life expectancy. The mortality credits, it would be a fair bet if I bet, I'm going to outlive you to one of my law students.

So instead, you have to take that into account. Now the way the tontines take that into account is to look at the death probability or really the probability of survival. But you get the probability of survival based on death probabilities and death probabilities vary greatly. So, at 65, men have about a 2 percent chance of dying before the year is out and a 98 percent chance of living to be 66.

On the other hand, if you're 80 years old, you've got a 6 percent chance of dying so only

94 of them will make it to the next year. And if you make it to 100, you've pretty much got a pretty high rate of dying like 35 percent of 100 year olds don't make it to 101.

So, what you do mathematically is you reverse that into mortality credits. And you say okay, well then when one of us dies, the older people should get more money out of this otherwise it's not a fair bet. Now the insurance companies do this as well as intermediaries. But what they do is they project from a life expectancy table like the kind of figures that I mentioned on how long my 25-year-old law students would live, 50 years or how long I may live, 16 years on average.

And that's one way to do it but then that's risky for the country. Of course, they guarantee that you'll get your $1000 a month if you play their game. With a tontine, you could look at life expectancy table but more typically you follow the actual survival experience. So, who live and who died and if you have a large enough number of people in the pool, it will all balance out and probably be pretty close to what the life expectancy tables say.

I appreciate that Mark suggested that it was certainly cheaper and less regulation and less expensive to operate tontines then say insurance companies. You don't have to have reserves. Also, importantly you don't have to shift your assets as insurance companies do into bonds, you can keep investing in the S&P 500, you can keep investing in stocks. So, a tontine can be designed to invest in stocks rather than bonds if you think that's going to get a higher rate of return which we might want in a low interest rate world.

Okay so what does tontine get you or what does a commercial annuity get you? It should pay 100 percent payments for the rest of your life. So, I just want to highlight some work that Richard Fulmer and I did very recently for Wharton and the Pension Research Council.

And in the paper we did, we set up a level payment tontine like the ones that's described in Mark's paper. And level payment tontine let's say would pay approximately $5000 a year just for a small one. Or whatever number you pay per year or per month, it's level and it lasts for roughly as long as you live.

We then sort of said well what if you just left your money with the DC plan? So, suppose you had $100,000 and you get $5000 a year draw out of that fund. Well with interest rates as low as they are, you would exhaust that fund if you took it out of a defined contribution plan you might well exhaust your money fairly quickly.

When we did it and we estimated a higher rate of return or a higher withdraw rate, we found that with the mortality credits, you could perhaps withdraw $8000 a year as opposed to $5000 a year without running out of money. But if you actually try to take the same amount of money out of a defined contribution plan every year that you would take out of a tontine, you'd run out of money by age 84 or age 85.

With a tontine, in our estimate, it would last until you were 100 or 120 depending on what life table you used. And that's because as people die, what they lose inures to the benefit of the few who survive. When you get past 85, half the people are gone so you've got fewer payments to make and so on all the way until somebody actually makes it to age 120.

Well, the authors here call it pooling heterogeneous participants when you put together old people, young people, men, women, and so on. And that's the way you do a fair tontine, make it a fair bet. We have a lot of issues here, a lot of public policy issues. Should the differential payments depend on age? Almost everybody thinks age is a reasonable factor.

Now, if it's a voluntary program as Anna said, it's not going to see much more than commercial annuities do. People don't like to buy commercial annuities. But if the employers buy it or if it's the default option, then a lot of people would buy either a commercial annuity of a tontine which would pay a little bit better than a commercial annuity.

And usually we would take age into account because among 65-year-old males at least you would think the life expectancy is about the same for all of them. And if they actually buy the insurance policy at age 35, it's almost certainly the same for all of them.

Some other issues that we have to think about, race we almost never think it's the right answer to differentiate between the races. Even though certainly with the Black Lives Matter movement we're well aware that Black males don't have the kind of life expectancies that White males have.

Now that may be less true of those who make it to age 65. I would think a 65-year-old Black male with similar work characteristics to a White male that age would have similar life expectancies. So, it could still be a fair bet then. Gender well, you know, when it comes to automobile insurance the boys pay more than the girls for their automobile insurance.

When it comes to ERISA and pension plans you can't pay retired women teachers a different amount then retired men teachers. You have to pay them the same. On the other hand, if you

buy a commercial annuity from your IRA or from even free standing money, then you can take into account.

There are a lot of other factors that also effect whether it's a fair bet. More highly educated people live longer than less highly educated people. Wealthier and higher income people live longer than lower income people. Marital status is a huge factor in all of these programs.

Social Security's otherwise redistributive aspects are defeated because they provide such generous spousal benefits. Because basically if you're in the top 20 percent of the income distribution you've got an 80 percent chance of being married. But if you're in the bottom 20 percent of the income distribution you've got a 20 percent chance of being married. So, the survivor benefits are largely going to my wife or I'll get hers, you know, higher income people.

Other things that life insurance companies would love to take into account and a tontine could take into account is do you smoke or not. The healthcare system takes that into account a little bit. How healthy are you? My life insurance company would certainly like to run a physical on me and get all the results. And if they were allowed to, they'd want to do DNA testing to see who is going to live longer than not. And I'd like to do that before I buy into a tontine.

So, last slides some other issues. I mention mandatory versus voluntary because people can estimate whether they want to buy into the group and people who want to buy annuities tend to think they're going to live longer because the inside information they have about their health and their family's health and so on.

Spousal protections as Mark mentioned and as the paper gets into are also very important. And joint and survivor annuities, we require that for traditional pensions. We don't require that for 401(k) plans and IRAs. And while there is a if you die with a DC plan, a 401(k) plan, yes, your spouse will inherit. But if you take the money out and roll into an IRA, then you can give it to whoever you want. It doesn't have to be your spouse.

Finally, I just want to mention here because we're in a computer age, we can do amazing things today that we couldn't do the last time you heard the words earnings sharing. So, what's earnings sharing, well I'm married. I've got an income, let's say mine is $100,000 and let's say my wife's is $50,000 a year. With the way it works now, I get a pension based on my $100,000 a year income, she'll get a pension based on her $50,000 a year income.

If we had earnings sharing in Social Security, in pensions, in tontines, instead our joint income is $150,000 a year and we would each have an account created that allocated the contributions based on $75,000 each. And so, my wife would have an ownership actually of a larger share of our co-earned income. And with that, I'll just turn it back to the panel. Thank you.

MR. GALE: All right thank you, John and thank you Anna and thank you Mark for the presentation. Let me start by just asking Mark if there is anything that Anna or John said that you would like to build on or respond to.

MR. IWRY: Yeah, Bill, first of all, I think that each of those sets of comments, each in its own very different way is really helpful and very grateful to have the points of view. Anna, I think we agree that the consumer protection is critical and that some degree of regulation will obviously be needed if tontines take off, if they are to take off, in order to deal with consumer protection needs. Not just crooks as you were mentioning but also risks of just incomprehensibility, confusion, imprudence in the way things are structured et cetera and unsuitability for the individuals getting marketed to join them.

But we think the fundamental starting point here is that they could have an advantage over commercial annuities in that respect, regulatory because you're writing on a clean slate. And so, it may be that -- and because there's less of a -- there's not that same amount of income guarantee and that's the tradeoff.

MS. RAPPAPORT: Mark, I think in terms of the advantage, if you didn't have to have state regulation that would certainly provide the potential for an advantage in terms of being less complex right away.

MR. IWRY: Right.

MS. RAPPAPORT: I would also make the observation and this ties back to both presentations today. But my experience, whenever you have a kind of thing that gets regulated in multiple places, it makes complexity the extent to which you can have regulation come from one source versus many different sources. You have a lot better chance of it not being too difficult.

MR. IWRY: Right. Imagine what the world would be like in pensions if we had to be regulated by both the Treasury and the Labor Department.

MR. GALE: Right, right. Well, let's talk a little bit about, we've talked a lot about tontines as a conceptual idea. And I and the co-authors and others, I think, find it to be quite a cleaver idea and

kind of amazed that it's been around for hundreds of years and at least in my case I only learned about it recently.

But tontines actually exist or tontine like structures, as Mark referred to them, actually exist around the world. And what do we know kind of from the real world about, you know, are these really that different do that really make a difference? Are they just another tool in the tool kit the way Anna described them or do they have a potential, you know, transformative effect that somehow annuities don't have because they have not captured the imagination of the public?

MR. FORMAN: Well, I think the rates of return would be a little bit higher on a tontine type pension because you wouldn't have to pay 7 percent of the costs to the insurance agent that talked you into buying the annuity from a commercial company. And because the commercial company wouldn't have to have reserves.

They're simply a caretaker for the money and since we've got the experience of ERISA, we know how to set up the money so it's held in separate hands by trustees. And so, I think consumer protection is not that much of a problem and we can have recordkeepers keep track of things.

A little bit of savings but it is still going to be some kind of requirement. I would say automatically default half of contributions into tontines/commercial annuity. If people don't want to be there, they can opt instead to put their 401(k) contributions somewhere else. But I think what we really need is just the default either to either a commercial annuity or some kind of annuitized product including a tontine annuity.

MS. RAPPAPORT: I would say that I think that this discussion about tontines is part of a broader discussion about risk sharing in retirement in other financial vehicles. The predominant types of retirement systems in the United States are both defined benefit and defined contribution.

One allocates virtually all the risk to employers one allocates virtually all the risk to employees. But there are other forms of risk sharing that you can still pool risk and tontines is the perfect example. If you can pool risk but you're not allocating it all to this third party, you're sharing it more among the participants.

I think that's a really important concept and we should be thinking about it for tontines but we should also be thinking about it for other risks. Because right now, there's been this flight from shifting of risk and that would enable better handling of risk in a variety of ways. So, I'm enthusiastic about that.

I'm also enthusiastic about models that think about similar concepts for other risks because it's very bad, the amount of -- the small amount of risk pooling we have now compared to where we were, I think that's a very difficult thing and it creates a lot of problems for households. And then it creates systems of last resort like Medicaid to pick up the pieces. So, I think it's really important. It's a really important issue in that bigger context.

MR. FORMAN: Let me echo what Anna said. Employers don't want to bear any risk. That's why we're moving to a defined contribution world. And so, employees or the government needs to bear the risk. And employees should probably bear it. Each generation should probably bear it. In the Swedish pension system, Social Security system, as Mark's paper, your paper suggests, does do some of that sharing within the generation.

MS. RAPPAPORT: Some of the -- also, some of the public sector employee defined benefit plans now have various kinds of risk sharing built in where employees are bearing more the risk. And if you go back a long time ago like 40, 50 years when we had so-called participating insurance contracts then the risk was shared differently and there was this intermediary of the insurance company involved.

But without necessarily having to have the insurance intermediation, the whole question of risk sharing is important. But you do need people that are going to manage it and the management, they have to be responsible and regulated with regard to their responsibility.

And I'm sad to say that. I mean, I wish I could say I didn't think they did, but there are enough bad apples that if you don’t regulate, the money is likely to disappear in some of the plans.

MR. GALE: All right, thank you. Oh, sorry.

MS. RAPPAPORT: I was going to say, I think if you ask the Department of Labor people, they can give you example because they protect that money. Go ahead.

MR. GALE: All right, thank you. Mark, do you want to have the last word here?

MR. IWRY: Bill, two quick things to add. First of all, I think as John and Anna were sort of short handing reference to our paper, I just want to remind the audience this isn't Mark's paper, this is Claire's paper, David's paper, Bill's paper and Mark tagged along. So, we're looking forward to putting it out and sharing it with all of you.

And then the second thing, Bill, is that I want to acknowledge that there are some

pioneers in this exploration of tontine like structures or tontine thinking. Moshe Milevsky and John Forman who is with us in particular. Your frequent co-authors, Richard Fulmer, Mike Sabin and others but in particular the two of you, you and Moshe who spoke at a conference with us last year I think have done monumental work in this area.

Deep thinking, tremendous amount of creative exploration. And so, our paper is definitely just something that stands on those massive shoulders of all you've been doing.

MR. GALE: All right, thank you, Mark, thank you John and Anna and a special thanks to Anna Dawson at the Brookings Institution who manages all these events. And special thanks to the audience today. I hope you found it informative and if you have follow up questions please send them along to events@brookings.edu. Thank you everybody and have a great day.

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