

RETIREMENT MANAGEMENT JOURNAL

A reprinted article from Volume 11, Number 1, 2022

BOOK REVIEW

New Models for Managing Longevity Risk: Public-Private Partnerships

EDITED BY OLIVIA S. MITCHELL

Reviewed by Anna M. Rappaport, FSA, MAAA

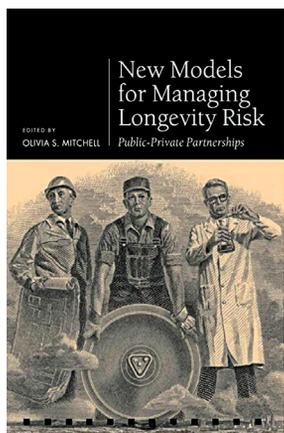


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New Models for Managing Longevity Risk Public-Private Partnerships

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Editor's note: New Models for Managing Longevity Risk: Public-Private Partnerships, edited by Olivia S. Mitchell, is a compendium of research studies sponsored by the Pension Research Council at The Wharton School.

This book offers perspectives on a variety of risks and challenges in retirement, and the role of diverse programs in helping to address them. The programs discussed are different from traditional investments, and they include both public and private programs, but particularly partnerships. The research studies provide data and analysis that can give advisors new perspectives and a bigger picture as they think about a client's retirement. The ideas discussed help fill in some important areas that often are overlooked. I recommend the book because I think it adds to our understanding of how seniors and our society address a variety of issues.

The themes covered include the following:

- How well individuals do or do not understand longevity and disability and what they can do about it. The authors find that many people have a pretty good sense of their longevity.
- Working longer as a strategy for improving life at older ages and producing a better result in retirement together

with some discussion of opportunities and options.

Complementary to this theme is a discussion of the negative effects of early retirement.

- The importance of long-term care services and the growing need for this support as the population ages. The growing need is accompanied by shortages in the care-giving workforce, a projection that family will be less available in the future, and challenges for people without family. In a separate chapter, there is a discussion of evolving means of financing long-term care including developments in the long-term care insurance market, Medicare, and Medicaid.
- Community services provided through public-private partnerships to improve the quality of life of older persons. One case study is offered that provides models for some things an advisor might want to look for in the community.
- Housing values are a major part of some Americans' portfolios, and housing choices include quality-of-life and financial issues. Issues include the link between housing and choices of at-home care and services, as well as financial approaches to using housing values to support retirement while the retiree continues to live in the house. They include both reverse mortgages and various tax-deferral approaches, which are offered in 24 states.
- Methods of converting defined contribution balances into lifetime income through approaches such as tontines and pooled annuities. These approaches are discussed in the context of state savings plans, but in the long run they also could have relevance for defined contribution plans.
- Methods of reinsuring or transferring longevity risk, such as the risk found in pension plans that pay out benefits as income.

Overall, the book offers a valuable supplement to traditional retirement planning and the management of personal funds. It provides some options to think about and a window into community services.

Below, I discuss several chapters that I believe are important to advisors.

PERSPECTIVES ON RESEARCH AND RETIREMENT SECURITY

Responding to longevity challenges is important to the older population. The decline of defined benefit plans coupled with rising medical costs, fewer jobs with good benefits, and longer periods of retirement are all contributing factors to challenges for retirees.

WORKING LONGER, RETIRING LATER, WORKING IN RETIREMENT

Chapter 5, “Working Longer Solves (Almost) Everything,” by Tim Driver and Amanda Henshon, Age-Friendly

Institute. This paper focuses on the importance of working longer, the business case for older workers, and the benefits to older workers for people working longer. Some factors included in the business case are more experience, improved customer satisfaction, lower turnover rates, and increased workforce flexibility. The paper points out that age is now considered in some diversity and inclusion programs. The paper includes a table showing job characteristics that are positive and some that are negative for employees older than age 50.

Chapter 4, “Does Working Longer Enhance Old Age?” by Maria D. Fitzpatrick, Cornell Institute for Public Affairs, Cornell University. This paper balances the positive and negative implications of retirement, including economic and health effects. It includes a literature review and concludes, “Importantly, the research showing that retirement has negative effects on health and increases mortality is more complicated than one may have thought.”

LONG-TERM CARE CHALLENGES AND STRATEGIES

The need for support and care in old age can affect the security of the individual, a surviving spouse, and children and other family members of individuals needing a lot of care. From a societal point of view, these are very important issues, because care is costly and its financing is in flux. Together the following offer a big picture perspective of these issues.

Chapter 3, “Disability-free Life Trends at Older Ages,” by Douglas A. Wolf, Center for Policy Research, Syracuse University. This paper offers projections of life spans free from disability; in other words, it offers estimates of active life expectancy (ALE) and when support is likely to be needed. Higher wealth is associated with higher ALE. Asset depletion, family, Medicaid, and private insurance are covered, as are paid family leave and the costs borne by caregivers.

Chapter 8, “Innovative Strategies to Finance and Deliver Long-term Care,” by Nora Super, Arielle Burstein, Jason Davis, and Caroline Servat, Milken Institute. This paper looks at how care is financed and new approaches for financing,

including providing more services in Medicare Advantage plans and modifying models for long-term care insurance. It examines the role of technology in supporting care and making it easier to deliver care at home. Four areas discussed are telehealth, remote monitoring, assisted mobility, and predictive analytics to improve diagnosis, quality of care, and lower cost.

Chapter 9, “Building on Hope or Tackling Fear,” by Adelina Comas-Herrera, London School of Economics & Political Science. This paper offers an overview of dementia, its costs, and related policy issues.

USING HOUSING TO GENERATE RETIREMENT INCOME

The book points out the importance of housing as a component of wealth and the desire of people to age at home. For many middle-income households, housing values are greater than personal financial assets.

Chapter 12, “Property Tax Deferral,” by Alicia H. Munnell, Wenliang Hou, and Abigail N. Walters, Center for Retirement Research, Boston College. This paper discusses property tax deferral, which is offered in 24 states, and retirement-income issues. These programs are described generally and one is described in detail. A general comparison is made between tax-deferral programs and reverse mortgages. The paper concludes that, in general, reverse mortgages are likely to offer greater maximum amounts that can be borrowed and more flexibility, but higher costs.

Chapter 13, “The Market for Reverse Mortgages among Older Americans,” by Christopher Mayer, Columbia University, and Stephanie Moulton, Ohio State University.

This paper gives an overview of reverse mortgages. For many households, the value and cost of housing can't be ignored in retirement planning. Note that housing and care can be integrated. In other words, housing location determines access to care and the availability of public and private community programs.

PUBLIC-PRIVATE PARTNERSHIPS

Community partnerships that enlist public and private entities go a long way toward meeting the needs of the retired population.

Chapter 7, “Public-Private Partnerships Extend Community-based Organization's Longevity,” by Dozene Guishard and William J. Dionne, Carter Burden Network.

This paper focuses on private not-for-profits that provide aging services and partner with government and includes a case study of the Carter Burden Network in New York City. The network's mission is to promote the well-being of seniors

age 60+ through a continuum of services, advocacy, arts and culture, health and wellness, and volunteer programs. The network operates senior centers that offer meals, classes, and activities and has engaged in a variety of research projects with different partners to find ways to help improve the health and well-being of the aged.

Chapter 8, “Innovative Strategies to Finance and Deliver Long-term Care,” by **Nora Super, Arielle Burstein, Jason Davis, and Caroline Servat, Milken Institute.** This paper also provides information about a variety of partnerships used in connection with providing long-term care in the community.

FINANCIAL APPROACHES TO PROVIDE INCOME IN RETIREMENT

Chapter 10, “State-sponsored Pensions for Private-Sector Workers: The Case for Pooled Annuities and Tontines,” by **Richard K. Fullmer, Nuova Longevità Research and Nuovallo, and Jonathan Barry Forman, University of Oklahoma College of Law.** This paper discusses state-sponsored plans as an option to help individuals not covered by an employer-sponsored retirement plan. It lays out approaches to offering retirement income from these plans without the need for purchasing an insured annuity. The income is not fixed and is adjusted based on the experience of the fund. Consumer protection is an issue. The authors suggest that the state-sponsored plans could partner with private-sector organizations to administer and run these arrangements.

Chapter 11, “New Financial Instruments for Managing Longevity Risk,” by **John Kiff, International Monetary Fund.** This paper focuses on defined benefit plans and methods that can be used to transfer or reinsure parts of the longevity risk. There are several market approaches for doing this. Some of them are also used for transferring some part of catastrophe risk.

ACTIONABLE ADVICE FOR ADVISORS

Advisors need to be aware of community resources and public programs so they can help clients think through their plans to deal with longevity risk. These resources might apply to a client, to a client’s parents, or to another family member. For example, if a significant local tax-deferral program is available to senior homeowners, advisors should be prepared to include this in retirement funding or housing affordability. Society of Actuaries research indicates that many people plan only for the short term, focus primarily on expected cash flows, and tend to ignore uncertain items. Advisors can help clients prepare for dealing with longevity risk by posing the following questions:

- What is the appropriate planning horizon for me, and what factors do I need to consider in the plan?
- How can community resources support my retirement?
- How should I plan for future long-term care needs?
- Will working longer or as part of retirement give me a better retirement?
- What do I need to do to make that practical?
- Should I live in housing that also offers support services?
- Can I afford my house?
- Should I use my house to help support retirement by taking a reverse mortgage, using a tax-deferral program, or by renting out a part of the house?
- How long do I need to plan for and what do I do to plan for a long life? ●

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Mitchell, O. S. (ed.). 2022. *New Models for Managing Longevity Risk: Public Private Partnerships*. New York: Oxford University Press.



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