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## **ARTICLE REVIEW**

### ‘From Saving to Spending: A Proposal to Convert Retirement Account Balances into Automatic and Flexible Income’

BY DAVID JOHN, WILLIAM GALE, J. MARK IWRY, AND AARON KRUPKIN

*Reviewed by Dorothy Bossung, CIMA®, CPWA®, RMA®, CFP®*



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# ‘From Saving to Spending: A Proposal to Convert Retirement Account Balances into Automatic and Flexible Income’

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Converting various sources of retirement savings to a lifetime income stream is an extremely difficult problem facing households. Per John et al (2019): “Defined contribution plans will not fulfill their potential to deliver retirement security until they include an automatic mechanism that efficiently helps participants to convert retirement savings into income. The same kind of automatic guidance that has helped millions to build retirement assets could plausibly have a similar dramatic effect helping them to use those savings effectively.”

To address this problem of converting retirement savings into a lifetime of income, John et al. (2019) have proposed a three-tiered default disbursement solution. The first would be pooled investment accounts resulting in a highly flexible managed payout fund to provide monthly income that is likely, although not guaranteed, to last a lifetime. The second tier would be a qualifying longevity annuity contract to fund a longevity program timed to make payments starting at age eighty-five and older. And the third would be a fund to cover emergencies and extra-ordinary payments not handled by the managed payout fund. The authors’ potential proposed solution is to create an automatic and flexible income solution dependent on retirement savings through the creation of default decumulation programs. The authors’ explanations and arguments incorporate the known retirement income programs currently available, suggestions for modifications of those programs, and the creation of new types of income disbursement programs. Thus, the authors present interesting and reasonable proposals that address a dilemma facing most retirees: how to derive income from retirement savings that will support a desired lifestyle and not be depleted before end of life.

John et al. (2019) suggest that traditional annuities could address one of the major issues in retirement by guaranteeing a fixed level of income for life in return for a set premium. However, as the authors point out, annuities account for only about 8 percent of retirement assets. The authors describe several “problems” associated with annuities, e.g., complexity, loss of investment with death (unfairness), lack of wealth transfer, high commission, lack of transportability, etc., which all combine to limit annuity sales. The authors’ solution is a managed payout fund.

The authors’ managed payout would involve a three-tier or phased approach to automatic decumulation of retirement assets that should offer the benefits of a simple, transparent, and inexpensive process. They would provide for a reasonable level of lifetime income to protect against the risk of outliving one’s savings. And, the phased approach would be flexible enough to allow the retiree to make changes or withdraw funds from the program without penalty. Additionally, John et al. (2019) suggest that current plan providers might be able to address some issues by making changes in their plan documents to expand choices for withdrawal of funds. The suggestions include the potential addition of a managed payout option added to a target-date fund, thus allowing for decumulation “automatically” at retirement.

Additional recommendations include regulatory clarification that lifetime income vehicles can be included as qualified default investment alternatives that defined contribution plans can offer on a default or automatic basis without losing safe harbor protection. They also recommend that employees approaching age sixty receive information and counseling regarding the management of income in retirement.

For those interested in issues surrounding decumulation, this paper provides some interesting ideas together with background information on solutions being proposed elsewhere around the globe. ●

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## REFERENCE

John, David, William Gale, J. Mark Iwry, and Aaron Krupkin. 2019. From Saving to Spending: A Proposal to Convert Retirement Account Balances into Automatic and Flexible Income (July). The Brookings Institution. <https://www.brookings.edu/research/from-saving-to-spending-a-proposal-to-convert-retirement-account-balances-into-automatic-and-flexible-income/>.



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