Industry Resistance
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Our project must operate on a pro bono basis. For one thing, there aren't yet many companies currently interested in promoting ideas about LDI for individuals, let alone annuitization.

Most Registered Investment Advisors (RIAs) view the idea of annuitizing income as losing control of assets under management – which means reduced fees. We hope managing and monitoring funding ratios will grow into a new way to add value for money in the future, perhaps on an hourly basis.

For insurance agents, annuitized products offer significantly lower commissions versus other types of annuity products. Also, annuitized income can no longer be moved to a different company down the road (known as a 1035 exchange), which means no new commissions from the same assets in the future. We hope the financial planning model will continue to evolve toward hourly fees to compensate agents for the same kind of funding ratio monitoring we've mentioned above.

Many Americans are facing a retirement crisis; we offer new ways to view the basic economic tradeoffs between different retirement income strategies. It aligns us with a key statement in the Prefatory Note of the Uniform Prudent Investor Act: ***"The tradeoff in all investing between risk and return is identified as the fiduciary's central consideration" - UPIA 2(b).***

Importantly, we include the concept of annuitization, even though it is an often maligned strategy among financial advisors -- something we find ironic considering this comment by Nobel Laureate Economist Bill Sharpe:

"Risk pooling is a relatively simple concept, but it is useful to see how well it can work when longevity risk is concerned."
—William F. Sharpe, RISMAT, 2017

Such a positive statement from an undisputed portfolio theory expert begs an important question about investment policy for individuals, 401(k) sponsors, and all those who advise them: how do annuities fit with previous Nobel Prize winning ideas about prudent investment policy?

Unfortunately, conflicts of interest are everywhere in the industry, which means the answer you get may vary depending on who you ask. True open architecture advice is hard to find.

In the high net worth space, Registered Investment Advisors (RIAs), private bankers, and trust attorneys -- who almost exclusively serve the wealthiest -- may not appreciate the financial challenges faced by average Americans. Those who help foundations and endowments exist in perpetuity may not be able to think in terms decumulation instead of preservation.

Insurance companies usually see annuitized income products as less profitable parts of their businesses. Instead, versions of annuities that generate income with riders, such as Variable (VAs) and Fixed Indexed (FIAs), offer higher compensation to agents and the independent distribution companies that act as middlemen.

Retirement newsletters get advertising; accreditation programs get certification renewal fees; even academics sometimes get hired by the industry to author papers and/or serve on advisory boards.

There are two industry experts who inspire our search to find unbiased opinions:

1. Bill Sharpe wrote a book in 2014 about how to tackle the difficult problem of retirement planning for individuals. His ideas aren't yet widely adopted.

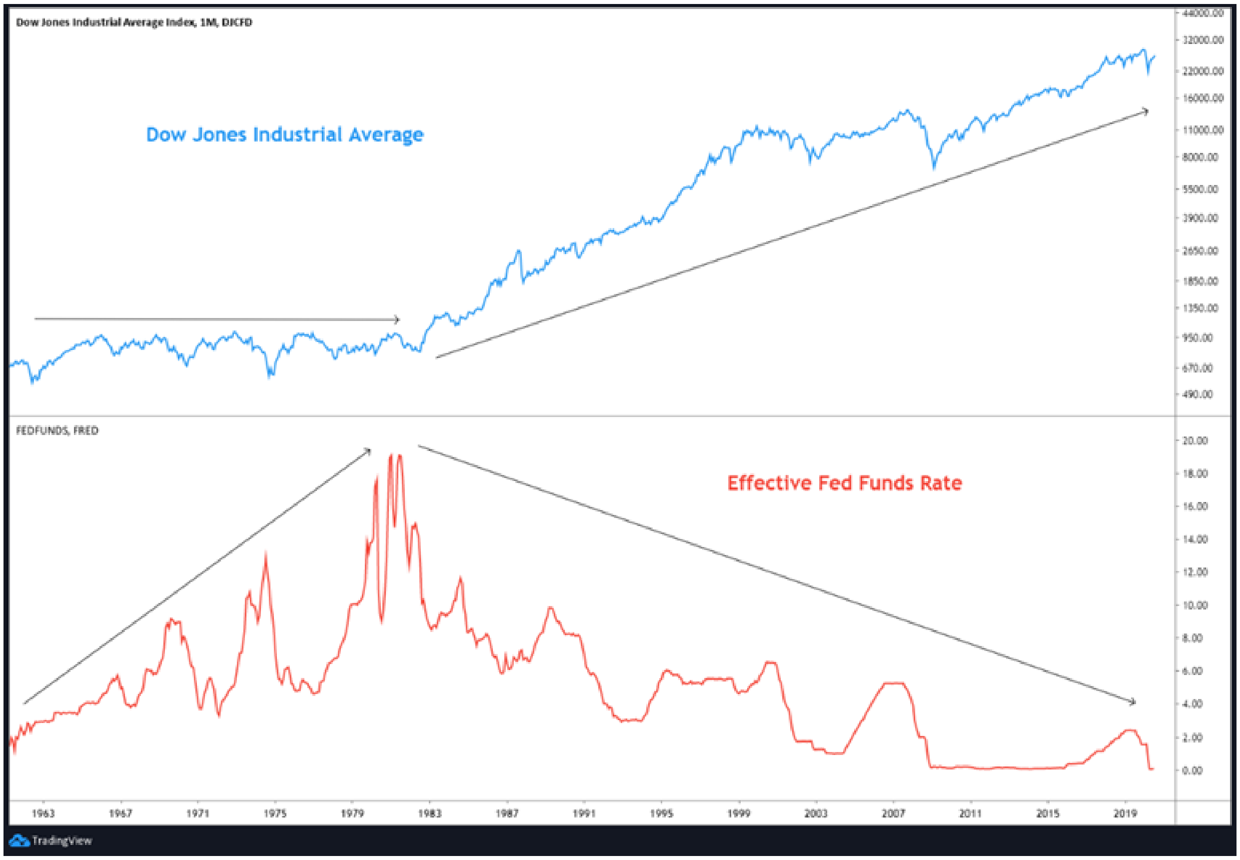
2. Barton Waring, formerly Head of the Client Advisory Group at Barclays Global Investors' Institutional division, wrote a book in 2012 about how to fix the underfunding problems of large defined benefit pension plans. His ideas have yet to be translated to defined contribution participants, but we attempt to do so.

Both authors present an alternative point of view from those espoused by many fiduciary advisors and insurance agents, who currently dismiss annuitization outright.

This disconnect is also driven by individuals' behavioral finance issues. A guaranty of income for life would take on a very different value than it does today if, instead of extended bull markets for both stocks and bonds, we'd recently experienced prolonged bear market declines. We do not currently have attractive real interest rates. Instead, rates have been at historic lows since 2008, incentivizing the siren call of riches from stocks.

Wall Street cheers when savers are desperate for alternatives to CDs, where bad news for the economy is celebrated because it encourages a low interest rate policy by the Federal Reserve. Today's talk of TINA ("there is no alternative") and "don't fight the Fed" are the catchwords. The Fed is hard to fight, but perhaps the Fed is also something to be feared longer term for people who are about to retire.

The chart on the next page helps explain to anyone who wasn't in the financial markets pre-1986 to understand what's happened since then. Certainly hard to call it free market economics at this point….



In this kind of environment it's easy to promote the idea that annuitization is bad and risk taking is good. Historical returns are frequently used to project the future. But this doesn't mean retirees should rely on past random return market data to calculate the cost of a secure retirement. As Nobel Laureate Economist (and statistics expert) Paul Samuelson put it:
"Investing for many periods does not itself introduce extra tolerance for riskiness".

In fact, the statistical probability of loss in risk assets actually accumulates over long time periods, because there are more opportunities for negative economic events to occur.

Our primary concern is for older plan participants, perhaps those who are currently invested in "fully managed" strategies like target date funds. These consumers are either already retired or retiring soon, and seek ideas for how to safely transition to income in retirement that will maintain their purchasing power. While these people have the most urgent need for understanding the benefits of LDI, potentially everyone should be educated about them.

It's impossible to know how many retirements have been ruined in the past by false market signals about risk. Inexperienced investors who funded retirements with stocks certainly paid a price if they retired in January of 1987, 2000, and 2008. These were periods which began with attractive historical returns but ended up "fooled by randomness" (the title of a book by Nassim

Taleb). Those investors who stuck it out were saved by the Federal Reserve, but risk adverse investors shouldn't count on getting bailed out in perpetuity. Interest rates are at all-time lows. Prudence suggests caution, perhaps even more so now than ever before.

All of this makes life difficult for ethical financial advisors and insurance agents who are in business to attract new clients. There's an age-old paradox in the financial services industry: while it's good to tell the truth it's another thing to be able to sell the truth (especially when your competition isn't). We hope to bridge that gap.

Today there are new reasons to find a way to bridge the divide between Bill Sharpe's ideas about annuitization and the way the marketplace perceives it:

1) **The SECURE Act of 2020 implies a new fiduciary duty** to at least investigate the possibility of bringing annuities inside 401(K) plans.

2) **SECURE also mandates a lifetime income illustration** on participant statements. This will affect all ERISA 401(k) plans whether or not an annuity option is added inside. The safe harbor default calculation format is annuitization.

Will sponsors actually choose annuitization as the calculation for their statements, or is that more "out of touch" thinking? The Department of Labor (DOL) thinks they will.

The DOL's selection of the annuity default seems clearly intentional. Over a multi-year period, volunteer experts serving on the Employee Benefits Advisory Board (EBSA) solicited input from every corner of the financial industry. After much analysis and debate, they ultimately decided on risk pooling as the safe harbor vs systemic withdrawal. The important question to us is… "Why?"

Clues can be found in the DOL's explanation:

"EBSA anticipates that the IFR will provide two primary benefits to participants:

(1) Strengthening retirement security by encouraging those currently contributing too little to increase their plan contributions.

(2) Making lifetime income information readily available, which will save some participants time in understanding how prepared (or unprepared) they are for retirement."

Do average Americans understand how much money it takes to purchase a secure retirement?

Do they realize how far they may be from accomplishing it?

Can they expect to safely earn income from their savings and also leave it to the kids as an inheritance?

Where can they fund truthful, educated, unbiased answers?

Perhaps there are some forward-looking financial advisors hoping to differentiate themselves with our ideas.

If not, we hope the many 401(k) plan sponsors who are currently looking for new ways to educate their employees about annuities may be interested.

Only time will tell.