

Feature: Retirement Income: Don't Look Now
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Are retirement income solutions missing the boat?

Setting aside the somewhat persistent theme that Americans are not saving enough, the more important question may be, "Can retirees manage their money well enough to ensure their savings last as long as they do?"

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Despite the tarnished reputation of traditional variable annuities that carry exorbitant price tags, opaque pricing, and are sold primarily as tax-avoidance vehicles, Boston University professor of finance and economics Zvi Bodie, author of *Worry-Free Investing*, says the new class of income-oriented annuities makes sense for the many retirees who are not willing or able to take on that longevity risk. He notes, for example, that many financial advisers now recommend investors withdraw no more than about 4% of their retirement assets annually.

By contrast, he says, some immediate annuities that, as the name suggests, begin payout immediately today yield more than 6%. "That's a huge difference."

Bodie also dismisses the argument that, because retirees face a 20- to 30-year retirement period, they can accept equity risk in their portfolios and ignore the advantages of an annuity. "If you're going to invest a lump sum and not touch it for 30 years, that truly is a long time horizon, and it doesn't matter to you what the sequence of returns is," he argues. Indeed, a tenet of retirement savings has long been the curative powers of time with regard to market cycles. "However, when you retire and are withdrawing money, the sequence is very important," Bodie notes. "Let's take a period of 20 years during which the average return is 12% per year and you withdraw 10% per year. Now, suppose that, during the first eight of those years, the return was 0%. At that point, you'd be completely out of money." Unfortunately, retirees generally are unable to time their retirement "draw downs" to accommodate those cycles.

Genworth Financial tried to address some of the biggest objections to annuities with its new ClearCourse offering, a group variable annuity designed to be offered to participants still in defined contribution plans, right alongside traditional investment options (see below, "Annuities: A New Breed"). To answer concerns that the purchaser might die before recouping her investment, for example, Genworth guarantees the investor's payout for a minimum 20 years. If the investor dies before that time, her benefits pass on to her beneficiaries. To address concerns that income annuities sacrifice any opportunity for growth, Genworth also passes on to the investor earnings in the underlying investment vehicle—currently, the GE Total Return Fund—that exceed what is required to meet the guaranteed minimum payout.

Many of the new annuity products are priced far more competitively than traditional variable annuities, too. Investors in ClearCourse pay 85 basis points for the insurance component of the product plus the cost of the underlying investment vehicle. "We have organizations out there using ClearCourse where the total expense ratio combining those two costs is about 130 basis points," says Fred Conley, president of Genworth's Institutional Retirement Group, "and we are entering into an arrangement with an index fund provider where we are able to have the asset management fee for an indexed balanced fund between eight and 20 basis points, depending upon the size of the assets in the plan, so that the whole thing combined can be offered for about 100 basis points or less."