Episode 156: Navigating The New Retirement Landscape

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SPEAKERS
Wade Pfau, Alex Murguia, Bob French, Briana Corbin, Jason Fichtner

Bob French 00:00
The purpose of retire with style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to risaprofile.com/style and sign up to take the industry's first financial personality tool for retirement planning.

Briana Corbin 00:41
Retirement just isn't what it used to be, but that's a good thing. This week, Alex and Wade sit down with our guest, Jason Fichtner to explore why protected income annuities and other evolving retirement strategies are reshaping how we think about the golden years.

Wade Pfau 01:01
Hi, everyone. Welcome to retire with style. I'm Wade. I'm here with my co host, Alex, and we are joined today by a repeat guest, Jason Fichtner, who's played a lot of roles and plays a lot of roles in the world out there, the Alliance for lifetime income, where he's an executive director and senior fellow at the the Alliance's retirement income Institute. Jason's also a chief economist at the Bipartisan Policy Center. He's played a lead role in the past at the Social Security Administration, and we're welcome. We're very happy to have you back on the show again, Jason, to talk about everything going on in the retirement income world. It's

Jason Fichtner 01:39
great to be here, Wade now, it's just good to see you both again.

Wade Pfau 01:43
Absolutely. Yeah. And I saw you in person in October when we when I was at the Alliance for lifetime income Summit in Washington, DC, next door to the White House at the Willard Hotel, which I see in the news quite a bit, hosting many different political events and so forth. But it was a great event, and we're happy to have you here to talk about that and other broader issues in the retirement income world. Thank you.

Jason Fichtner 02:07
Now I appreciate that, and we can start whether you want to, obviously, the protected retirement summit that we had on October 9 at the Willard was fantastic. And again, Washington, DC, the Willard is getting a lot of attention now post election, for all the different characters that are coming and going around Washington, DC, as we head into the inauguration and, you know, January 20. But it was a really good, really good Summit. We had a lot of good discussions with the industry, with consumers, with retirement specialists. So it was a lot we talked about research, Social Security, protected income and plan. Where do you want to start? My friends, yeah,

Wade Pfau 02:44
it covered everything. I mean, one of the really unique aspects of it was the consumer panels. So that might be a good starting point, just hearing the perspective of individuals, some who were already retired, some who were getting closer to retirement. In one case kind of fun to see. Michael Finca, his mother, was one of the panelists as well. And so a lot of interesting insights came out of those conversations about people as they're getting closer to retirement, job insecurity and concerns. There was one individual who lost his job and was really struggling to find a new position. A few other people, though, really were showing the entrepreneurial spirit of in a one, one couple had created a wedding venue that's kind of a side hustle for them. Another one, I didn't fully understand the terminology, but it sounds like he was a teacher and a part time butcher on the side. That was kind of the biggest takeaway for me was just hearing about those experiences, and what did you take from the consumer session,

Jason Fichtner 03:49
I think, to broaden this a little bit on the consumers, and why the Alliance lifetime income is so important is that it is focused on the consumer. So it is the one organization that speaks on behalf of consumers, that gets a consumer voice in at various conferences. It's not just industry and academics. And what you find, and I think you're pointing on this way, is that retirement is not the same for everybody, and it also is not the stereotypical for most people now, like we used to think about the movie On Golden Pond, where you turn 65 sit in a chair rock by a cabin by the water and never do anything again. In fact, we might consider the idea of retiring the word retirement, because it no longer fits. For many people, there are, you know, we're living longer. We're concerned not just with lifespan, but health span, how our healthy years will be included in our retirement years, whether we're going to work in retirement, whether we're going to volunteer, whether we're going to work longer, all these things come out of this. And you said, you mentioned the entrepreneurial so that the wedding venue was a person, they bought an Airbnb, right? They started realizing they could rent the space out, because they had a great venue. And people say, Hey, can we rent it out for a wedding, like wedding? Okay, now it became part of your business, and now they're booked, and so it's a sign up. So basically. To get a semester income. But you saw people on the consumer panel that were concerned about spending their money in retirement, and that's where we start coming in, with the help of protected income strategies and how we can help people convert some of that savings into protected income so they do feel comfortable knowing they have enough money in retirement to spend to make their ends meet and live the lifestyle they want. And that goes into some research that you've done as well Wade talking about how income should be an asset class. When financial advisors talk to people, we can talk about education later, but also the concern people have about running out of money, and that's a legitimate concern, because people do not know how long they're going to live. They are worried about this environment inflation.

They're worried about market returns and volatility and sequence of return risk, and what you find is that the consumers are not unintelligent, they're not stupid, they're smart. They're just scared, and they need help and guidance figuring out what they can do to help make sure their financial assets last in retirement so they can live comfortably. And I think that's where we come in, and where we're all trying to help, and

Wade Pfau 06:01
a lot of new research was also released, not just as part of the summit, but in the months leading up to that as well. And the protected retirement income protected income study isn't that the

Jason Fichtner 06:16
right income planning is that because it's a hard like P rep, and that's the best way

06:21
PRP to look it up. P rip, yeah, P

Jason Fichtner 06:25
rip, P r, I P, so if you Google, P r, I P, Alliance like to make income, it'll pop up on a Google search. But it really is a protective I know it's everyone tries to figure out what's a good name to have. You think, Well, these research, you know, they hrs at Michigan. Shadows, but you know the Federal Reserve,

Alex Murguia 06:44
it's all right, Jason, I'm still trying to find a way to work in what did think as mom, fly, coach, business or first class, I haven't let that thought go. It's been floating in my head for the last five minutes. Do you have the results?

Jason Fichtner 07:07
I did not look we were hoping she was gonna bring some baby pictures for the slideshow. Disappointment, but that's my fault for not prompting her to bring

Alex Murguia 07:16
more. And I love the ungodly pun reference. I thought you got throw a cocoon or something like that.

Jason Fichtner 07:23
That's, you know, just to jump ahead, we'll drop back. But cocoons an interesting reference you make there because we had Ken dyke walk do a keynote talk William Broomfield. Is that the guy's name, Broomfield, whatever that name afterwards,

Alex Murguia 07:37
from the Brimley Brook. Well, whatever. But

Wade Pfau 07:41
really, so he's only like 45 years old.

Alex Murguia 07:46

The way he said, diabetes is like Hall of Fame material. But

Jason Fichtner 07:50
the thing is, they show his his picture, what he was in the movie, and he's like 45 or 50, and he looks like he's like 75 in today's age. That just shows you is how aging has changed, how health has changed, how we have changed, and how we need to talk about the changing nature of retirement, because we are living longer, and it also means we're changing how social security and our assets need to last longer as well. So that was kind of the pivot. We can come back. But there was a lot of good researchers showing up people's insecurity, how they need more protected income, how they can spend more protected income, how we basically have now less people have pensions and need that replace that protected income through some sort of annuity or protected income structure, through a DC plan. And also just, you know, you think about the generations coming behind us. You know, for those we're talking about peak 65 where this is the generation today, turning 65 starting this year in 2024 and continuing through 2027 4.1 million Americans are turning 65 every year. It's 11,200 a day. We caught our peak 65 moment. But if you go through the years behind, when the millennials were born, there are now the peak millennials. There are more millennials than there are peak 60 fivers, and they're following 30 years behind. They're going to have same problems, maybe even greater problems, with the solved and work our challenges through when it comes to retirement security. And so what you start thinking about now is you have the current generation that's retiring, that needs protected income, but they also have social security, and some a few still the pension, but the generations that follow them really are the 401, K generation. And of course, tomorrow retire without some sort of protected income besides Social Security. But Social Security is only designed to replace about 40% of your income for the average person, not 70% or 80% which most financial advisors think you should have in retirement. So these things came out in the period study as well, and how we actually what issues need to be aware of, the educational gap we have, and the professional industry gap, and helping reach those people so they can have more protected income retirement.

Wade Pfau 09:52
Yeah, I think one of the statistics that stood out was with in private sector employment, 60% of people in the past would come. Retirement with a traditional pension that's down to 4% amongst the younger generations.

Jason Fichtner 10:06
For most people, you know, it's public sector workers still have a defined benefit pension plan for most private sector workers, is Wade says about 4% and, you know, and so we can be timely versus the week of Thanksgiving. But there was an article in today's Wall Street Journal talking how Kodak is now basically going to shift their defined pension benefit plan to a cash balance plan, or buy people out, or have a risk transfer, and basically sell it to an annuity company so they they will get an annuity payment instead of a defined pension plan. Kodak, they're still in business. So this is what you The interesting thing about trying to get into

Alex Murguia 10:45
crypto, like, three years ago, or something like that, am I wrong? Or, yeah, no. What's

Jason Fichtner 10:49

interesting about it again? This is for those who want to just, you know, again, you can Google Kodak pension plan and Wall Street Journal. I think it was a journal The New York Times, it was a journal. But they basically when they were almost when bankrupt or came out, or they started a pension plan again and funded it, and they've done so well in the market that it now is a larger asset. It is more than fully funded. So wait,

Alex Murguia 11:10
are you telling me this is the first time Bitcoin fixed it.

Jason Fichtner 11:16
But what's interesting is, because it's fully funded or more, so they're going to cash it out and put it on their balance sheet they want to. So unfortunately, instead of it benefiting the worker, it's benefiting the company. And this goes into the idea now about how you know, reason why I think defined contribution plans are so important for people is that they get the benefit of the market return. And of course, what we have to do is help them manage the sequence of return risk, the ups and downs that happen the volatility, and have better solutions, so they have protected income and can weather those storms in retirement. But that's what we're seeing again, is the decline of DB plans, the rise of DC. It is a DC world now, and that's part of the new three legged stool, the three legged stool we talked about for retirement with Social Security and DB, pension and savings. And now it's, you know, Social Security has got some financial challenges, but it will be there in some way for people. In some way for people. Now, your DV plan has a defined contribution plan, which we need to help people convert into some sort of protected income at least partially, and then the third leg of the stool, individual savings. Either people to save more they may have to work part time in retirement, and that's what came out of the consumer power people trying to do part time jobs, whether it's starting a business with a wedding planning and a wedding venue site or being a butcher on the side. People are trying to find other ways to make ends meet and have more income in retirement so they can be secure.

Alex Murguia 12:31
Sweeney Todd, no

Jason Fichtner 12:33
go there.

Alex Murguia 12:38
Sweeney Todd,

Jason Fichtner 12:41
no meat pies for me.

Wade Pfau 12:44
So in talking about the three legged stool with the pension legs going away, the having to be replaced by savings, and then you mentioned that Social Security, certainly I agree that Social Security is going to be there in the future. Maybe a question a lot of people have since the election is, is there any new information about the prospects both for Social Security and Medicare, in light the

Jason Fichtner 13:08

news sort of today was President Biden was going to propose that Medicare and Medicaid cover weight loss drugs, which would add billions of dollars a year to those programs, but the Trump administration would have to approve it, so I'm not sure it's going to happen. Both candidate Trump and candidate Harris ran on a campaign of not touching Social Security, and both also ran on some certain platforms that could decrease the revenue into the trust funds for Social Security, like potentially not taxing tips or not taxing social security in retirement. Both of those would have revenue implications for the Social Security trust funds if changes were made under President Trump. But in general, the President Elect, he said he's not gonna touch Social Security, so there are technically no changes forthcoming on reform. However, what I would offer is potentially a silver lining. I always thought it was going to take a president at the end of their term to do social security reform, whether it's a commission or have they come out and support reform? Had President Biden been a one term president by choice, like, had he come out when he was running as a candidate and said, Look, I'm going to do one year. I'm that bridge. You guys all wanted back to bipartisanship. I'll make all the heavy choices. I won't run again. And did that from the start. He could have done social security reform his last two years after the midterm. If President Harris had won, my guess is he would not have social security reform for eight years. Could she be running for re election at four and that puts off the third rail. The silver lining here is President Trump has now a second term, he cannot run for a third, and perhaps maybe after the 2026, midterms, when he has two more years left in office, maybe he's the guy that wants to come out and say, I'm going to save Social Security and would back a commission. And if we think about how the. Looks, you know, usually the president's party loses seats in the house during a midterm. The Republicans have the house going into the next Congress, starting in 2025 by a very small margin, which means, if you were just betting today on history, you would bet that the Democrats would retake the house in 2026 grant 2027 so a Democratic House, a Republican Senate, and a Republican president, Trump could be a good mix to do social security reform in 2027 or 2028 come back and talk to me in two years, and we'll see. Yeah, there's

Wade Pfau 15:34
still going to be five or six more years after that before the real panic ensues. So it's going to have to take some courage to act for sure.

Jason Fichtner 15:42
Yes, that's the key point. Is courage, and we can't let off the gas pedal. The education that the longer we wait, the larger the changes are going to have to be, and more dramatic they're going to be to make this work overnight.

Wade Pfau 15:55
And I know you at Social Security, you put a lot of emphasis into redefining, just using the terms that instead of calling it the full retirement age or the early retirement age, it's the reduced benefit age and so forth. But we have seen this transition. It seems like we're on a trend now where next year, there may be a bigger percentage of the population claiming after their full retirement age than claiming at 62

Jason Fichtner 16:21
transition what? When I was at Social Security as a deputy commissioner, we were noticing the agency, if you went into so the agency has roughly 10 or 13,000 field offices. I'm not sure the number. Might have closed since COVID, but a lot of field offices. And the number one question

that Social Security would get when someone walked into a field office was, when should I claim retirement benefits? The number one transactions replacement social security card. You get married, you lose it, you replace it. But the number one question is, When should I claim benefits? And what was happening is the Social Security Administration was using what's called the break even, an analysis. In other words, Social Security is based on a formula where your full retirement age, which is now 67 for those basically retiring today, you get a reduced benefit if you claim before 67 as early as 62 but presumably for a longer period of time, because you're claiming it early, if you wait till after your full retirement age up to seven, you get a higher monthly benefit. And what Social Security telling people they walked in at 62 they'd say, Hey, if you take benefits to 62 you'll be ahead for 14 years, 14 years of benefits, and you would break even after 14 years. And people heard I'd be ahead for 14 years, Sign me up. And we never told them that they live past 76 that then be behind for the rest of their life. And that language we started changing. We got rid of the break even analysis. We put out a new two pager about when to start cleaning Social Security that was based on personal decision that made you think about your health, your assets, your savings, your spouse, because when you claim can affect your spouse so benefits as well, and that forced a conversation. We also had a little chart that showed if you were going to get $1,000 a month at your forward coverage of 67 that amount would be $720 at age 62 that's a 28% reduction in your monthly benefit for the rest of your life, where, if you waited until age 70, it's a 32% increase. So you basically had this difference between, you know, age 62 and 70, it was 77% different. So you could get a 77% greater monthly benefit by waiting from 62 to 70, and we've been trying for years to change how we talk about this. So some security calls 62 the early eligibility age. We should call the minimum monthly benefit age. We should call age 70 the maximum monthly benefit age. And I have no idea why we call age 67 the normal or full retirement age one. What's normal about 67 some people think it's 65 separate what's normal anymore? It doesn't matter. Doesn't matter. Then the idea of full if you have a full glass of water, you cannot add any more water into it without it spilling. So why do we have a full retirement age which allows you still to claim three more years later and get more money? And so the nomenclature is often there's a bipartisan bill that would change that we're hoping that, hopefully, maybe go through next year. There's bipartisan support to force the agency to change that nomenclature, because that makes a difference. And age 62 is still the modal age that people claim. But we have seen a trend over the last several years of more and more people claiming later than 62 and D Wade's point, getting more towards the full retirement age.

Bob French 19:21
If you're looking for more personal advice, take a look at this episode sponsor, McLean asset management. You can learn more at McLean am.com that's m, c, L, E, A, n, a, m.com McLean Asset Management is there to help you on your path to the retirement that you deserve. And don't forget to check the show notes to get your free ebook on retirement income planning. Yeah, it's

Wade Pfau 19:50
been a remarkable trend, because we used to talk about 55 60% of people claiming as soon as they could at 62 and that number at this point is down to like 2728 Percent. It's still a big number, but it's this

Jason Fichtner 20:02

is where the royal we and the retirement community and the advisory community, I think should take a lot of credit, because literally, when I was at Social Security over a decade ago, when I read the financial press market, watch Yahoo Finance, whatever I read, that most people are more than authors who are talking about the break even analysis and saying, take it 62 because you'll be ahead for 14 years. Now, that's a complete 180 now, most people say if you really need the money, take it when you need it. If you can afford to delay, you're better off delaying until 70 because of the higher spousal benefit, higher inflation within annuity value. We've done a 180 on that, and I think that's helped people understand and have a conversation with the kitchen table, conversations at the family level, the financial advisor their clients, the media is writing about it. That's also made a big difference for how we talk about annuities, because Social Security, wait for it, is an annuity. And so to talk about annuity as a protected income, and having additional protected income on top of Social Security allows us to have a much larger and more rich conversation with the public about how they should think about protected income

Wade Pfau 21:06
in retirement. Yeah, thank you for bringing it back to annuities and protected income. Saying, yes, Social Security. Let's get back to what was at the conference as well. But right, the first step is, if you're thinking about adding protected income, you want to take advantage of delaying Social Security, because it's still based on calculations from the 1980s where people are not living as long and interest rates were higher, and so you really benefit from delaying. But then, if that's still you'd like to have more protected, reliable income. That's where the Alliance for lifetime income comes into play with the transition to defined contribution pensions, where people are managing 401, K investment balances on their own if they want to fill that gap with protected income. That's where the role of the annuity fits to augment and enhance the Social Security benefit and replace the traditional defined benefit pension that fewer and fewer Americans have,

Jason Fichtner 22:01
yeah, and I think Wade, that's the important thing to hit home. So I'm going to repeat exactly what you said and say maybe a little louder, so folks who are listening understand, if you go back to the traditional three legged stool, which was Social Security at DB pension and personal savings, you get a paycheck when you work, when you retire, Social Security gave you a check a month, and your DB pension plan gave you a check per month as well. So you're basically getting a paycheck when you retired Social Security and your DB pension paychecks were supposed to basically replace around 70 or 80% Social Security, about 40 your pension added to the 30 or 40, there's your 70 or 80% without that DB plan. Now you have to make up the difference. You can't just rely on Social Security for protected income. Now you've got that defined contribution plan, and some people are used to the savings framework, accumulation, investment, maximizing return that they get the point of retirement, and they don't realize that. Now they've got to turn that into a spending plan. And you can talk about whether a 4% draw down is the right mail phrase. I don't think it is the right framing, but that's draw down strategies. But the idea is, if you're trying to recreate the three, they could stool into a new three. They could stool then the idea is, how do you convert some of your DC assets into a paycheck in retirement that replaces that DB pension plan? So with that and Social Security, you've now augmented. You have that 70 to 80% you want as protected income as a replacement rate in retirement. And that's how we're shifting. We've shifted from the DB to DC world. Now we've got to shift the framing from savings to spending, and how do we do that protected in retirement?

Wade Pfau 23:38
And one of the panels at the conference was about the innovations in the defined contribution world to bring the in plan solutions, or in plan protected income solutions that when you look at the menu of options in your 401 K stock funds, bond funds, and so on and so forth, but also some sort of protected lifetime income products. And there was a big discussion about innovations in that area. Could Could you talk a little bit about what you've seen there? I

Jason Fichtner 24:04
think we are on the cusp of something really revolutionary and amazing happening. And I think maybe within the next 10 years, we might see almost 100% of defined contribution plans have some sort of annuity option, a protected income option for the participants retirement, whether it's part of a target date fund or annuity option, and where I think we're going to start seeing different solutions come in. This is what comes out of the conference. Is there? Some people say, Look, I don't want a lifetime annuity. I don't want it. I don't need it. Or they don't understand it, but you don't have to do it's not one size fits all. It's what can you have that are potentially default options that could help people. So let's start with one that I'm a big fan of. It's called the Bridge annuity. So imagine someone comes in and says, Hey, I'm 62 I want to retire today, and I want to take Social Security benefits. And we say, whoa, whoa, whoa, wait a minute. You know you're taking it 62 that's reduced monthly benefit that lasts the rest of your life. What if we could structure some of your DCS? Is to give you your age 62 benefit for five years as a fixed term annuity that gets you to 67 or we do eight years to get you to 70. Now you're doing is you're giving them their age 62 benefit amount as an annuity, and then you're facilitating delayed claiming, which would give them a higher social security benefit amount that's inflation protected for the rest of the life. So that could be one way of increasing social security claiming age, which would give them better protection, as well as helping to use that DC asset. Another, something that Tia has. It's called the trial annuity. So if you're like what I want this annuity, I have to hand over and surrender so much money now I, you know, I don't find gonna like it. What if we give you a two year trial? So people are interested. It's called the income test drive. You can google income test drive and Tia and pop it up. They basically give you a two year trial. You start getting your monthly check in retirement. And after two years, you like it, you just continue. The default is to continue the annuity. You don't like it, you get your cash balance back. And that gives people a chance to try out the benefit of having lifetime income. And that's another and so there are other strategies. People are embedding annuities now into target date funds. I think we're going to see more of that option happening as well. And you can imagine someone when you think about the behavioral framing we talk about the benefit of like a 6040, equity bond rate portfolio split in retirement. If we start talking about a 6020, 20, 60% equity, 20% fixed income and 20% protected income, and we started talking about that from the time someone takes their first job in their 20s all the way into their retirement age. We want to call it retirement now in their 60s, they will be looking at their quarterly statement, their annual statement. They'll be seeing their pie chart going from more equities to more fixed income, and at some point that means protected income, they will then come to expect and want protected income when they retire. They won't be asked for it. They will be expecting it because we've been showing it to them in statements all along. And I think we're on the cusp of that actually starting to happen more and

Wade Pfau 26:52

more. And you're saying that may go even to the very earliest ages of plan participation, not not just something in the, say, five or 10 years before, I

Jason Fichtner 27:01
think we're going to start seeing something where you're going to start having plan participants tell their you have employers start telling the plan sponsors, hey, the target date fund is giving us an annuity option, and that's going to start being in a target date fund

Alex Murguia 27:15
beginning. Yeah, we've we've done some Wait, and I actually have done some work on this with John Faustino, and we're finishing up a paper around this. Well, I think we're done, but you never know, right? There's no like review and revise kind of thing, but let's just leave that aside. No, but it was interesting, and there's a lot to share on that, but I won't make it part of this podcast, but one of the things that I think, you know, there's a bit of a Halcyon kind of ideation, like, oh, this could happen just and we'll get right back to where we were before. But I think making these QDA is making these defaults, making them to be default within plans. I think that will be the, the key there to split that thing wide open, right? As opposed to just having them as an option. If you just have them as an option, I think they'll just not even bother to be, to be completely frank with you, and I'm saying that without trying to be the wet blanket, if you will,

Jason Fichtner 28:20
right? So I think I agree with you. What I always try to do is you're going to have someone call in and say, I don't want this mandatory default. I'm the person that doesn't like it. So to give you an example, you know, target date funds. You are not mandated to have a target date fund in a retirement account or your individual account, but it has become the default because it is just easier. It follows portfolio theory about reallocation throughout the life cycle, and folks just do it so you can see how people can offer a target date fund with a protected income portion at the class of it that could become people's default, but they could also build their choice. You could also, to your point, Alex, have a QD IA and say, We're gonna make this a default, unless you opt out. So instead of opting in, you opt out, so you still preserve the choice of someone saying no, but the default is in there. We know it's the default that tends to have a big impact

Alex Murguia 29:11
on adoption. And what we've seen, too, in terms of some stuff we've done, and then just reading up, frankly, and in anticipation of the study, I read up. I, like, just went through, you know, like Sherman, through Georgia, going through your library, of all the materials you have on it. So, you know, we sort of boned up, and it led to so many, it's great resource, by the way. But within that, we noticed a lot of a lot of ideas around, and I think you mentioned this that you socialized this a bit earlier, that giving folks that option when they can have it, and quote, unquote, just put it in your mental compartment as the bond allocation, a certain percentage of your bond allocation. And then once you get to a certain age, you know you can defer that decision for a little bit. And as having that option allows you a little simpler to maybe default, because. Is, you know, it's always been a bond, you know, until you flipped it into the annuity later follow. I think that's an interesting angle that just seems to be the case where it would be going. And I

Jason Fichtner 30:11
think that's where we're going to get to. I think we're going to start seeing that happen more and more each year over the next 10 years, especially as we get again, if you think about trust fund

depletion, with Social Security being somewhere in the early to mid 2030s depending on how the economy goes if there's a recession, whether tax law changes and we tax tips or Social Security benefits. But let's say somewhere in the early to mid 2030s we're going to see more and more discussion about how to recreate additional protective income retirement. And folks are going to look at their four 1k and ask that for 1k be able to help do them. Do that for them.

Wade Pfau 30:46
Makes a lot of sense.

Jason Fichtner 30:47
I you know this is, this is a great time for us to be a part of the retirement security industry, because we do have a story to tell. There are people who need our help and assistance, and we have the products and the solutions to help them, and we also have, I think, a bipartisan willingness, because we've seen with secure, secure 2.0 and maybe there'll be a 3.0 but retirement protection and security is still a bipartisan policy issue that I think has a lot of legs for years to come, and we can make a lot of headway on The policy, regulatory side to help make this

Wade Pfau 31:24
happen. You bring up the idea of secure 3.0 that I think a popular question is like, what would be on your wish list if there is a third iteration of the secure act that introduced so many changes? I know this

Jason Fichtner 31:37
is where, and I will recognize that, you know, we've had done with secure and secure two we've had more changes, beneficially for retirement security, than we had the previous, I don't know, 1520, years. So there's been a lot of movement on the policy side.

Alex Murguia 31:50
It's the pre Cambrian era for security. We should give them

Jason Fichtner 31:57
time to implement right? There was a lot of things insecure in secure 2.0 that employers are still grasping with and want to see how it works out, and they're still learning the rules and the processes. And I get that if there's a three, what I think would we need to do more of is verify and validate where we are seeing real barriers to adoption of annuities and defined contribution plans. Are there realistic concerns about producer responsibility and legal risk? What do we do about defaults? You can do more of that now, secure to what? Oh, but where is the hang up? Why are we not seeing more adoption? I think it's happening, but there's still some barriers. How to reduce those barriers? Is it available in 2.0 we need to do a better job educating, the public and employers about it, or the really barriers we haven't solved yet, and that should be part of three, oh, but three, oh, it's gonna have to be an educational evolution from two Oh to three, oh, before we start talk about what should be in it. But I think we need to make sure we do more to reduce the barriers to an organization, to divide contribution

Wade Pfau 32:57
plans, and that portability is still one too, where if people change jobs, some annuities may be hard to transfer over a rollover to the to a new plan. I think

Jason Fichtner 33:10
we can figure out the pricing of that and how that would work. But yes,

Wade Pfau 33:14
all right, well, I think we've solved the world's problems here. Is there anything else you'd like to share? I know you're so active in doing so many different many different things.

Alex Murguia 33:23
I'm also always curious what research you guys have to look forward to in 2025

Jason Fichtner 33:30
so yeah, so a few things we're working on. So Tom and Wade knows this too, is there are things that we at the Alliance, lifetime income the permanent income Institute and as research scholars can say that it turns out the industry cannot, for example, the industry cannot go on talking about a paycheck for life. I don't know why, but they can't. We can Wade's done research on protection as an asset class. A lot of the industries were locked in to do that for compliance reasons, even though the academics and educators like myself and that's the best way, because we totally

Alex Murguia 34:07
understand why, though, as with my McLean asset management hat on, that's like no fly zone. So

Jason Fichtner 34:13
so what we're going to start working on in 2025 is a broader set of educational and compliance issues. So one is figuring out where you think about de part of labor for ERISA SEC for security, FINRA for educational materials. Where are we seeing roadblocks and barriers to having common English language discussion with consumers and the public?

Alex Murguia 34:37
This? This brings up a good point, just because I say this with again. Now, with my recent head on, we have a lot of advisors that use this, outside of McLean, right? They subscribe and and a lot of a lot of broker dealers and getting this FINRA approved. The outputs FINRA approved, we have to take out sections because certain words were mentioned that you can't. If you mentioned fixed indexed annuity or just something, like, you can't have it, you know, I mean, like you can't mention a product. You can't mention

Wade Pfau 35:09
adding 20 disclosure, disclosures, or if the person

Alex Murguia 35:13
using the RESA isn't licensed for literally every, you know, everything, it just becomes a big puzzle that doesn't fit together in terms of trying to appeal to everything, and then you just say, You know what? I'm just not going to do it because I don't want to, like, have a hand that's going to bite me back later.

Jason Fichtner 35:32

Well, and this is the hurdle that we're going to try to start doing more research on in 2025 because we now with research done by Wade, for example, and Michael Finca and David Blanchett and others, we now have the empirical evidence to show the value of annuities. And again, we've been showing the value of annuities for 2030, years, but we're doing it more in common language, and we now have Congress and policymakers on our side too. So now we're just pivoting that story. And I remember part of this is because when I was at Social Security, again, we got security again, we got pushed back on changing the language away from break even. And it took a leader, and that was Commissioner Mike astute, to say, we're going to get this done. And Mike Ashu really did not like the fact that if he picked up a Social Security Administration publication and his deputy commissioner had a PhD, couldn't understand it, then how was the public understand it. And he made a big push to do common English language materials, and I think that's one of these we're going to try to help put a bigger emphasis on for the regulators going forward, is let's have conversations. Let's get stakeholder groups together, of industry, consumers, regulators, and talk about how we can speak to the American people in a way they understand. Because if we're going to do any sort of educational materials, and think about your defined contribution plans. What's the plan sponsored employer going to give their employee? It's got to be in plain English. It can't be a 25 page document. It's got to be a one pager or a double sided one pager that explains this. It's got to use terms they understand. So that's going to be part of our research and educational challenge that we're going to do at the Alliance, both in the research side and the educational side. That's part. And then, of course, continuing our research on what kind of solutions we can do both through direct to consumer, through the distribution side, the DC side, how we can do that with those kind of research will always be fundamental to the retirement income Institute, the Alliance

Wade Pfau 37:18
for retirement income, great. Okay.

Alex Murguia 37:24
Did you did you send Fink as mom home greyham? Or did she actually

Jason Fichtner 37:30
go back to nights, I think, and saw the city. She had a great

37:36
time. Yeah, wait

Jason Fichtner 37:39
for one of the research fellows at the retirement income Institute. He didn't say in his bio. So we appreciate all the help and support and work he does for the Alliance lifetime income and the retirement income Institute as well, and has done some great research that we promote heavily and that advisors in the media like, because it's impactful, it's real, and it's, you know, what I call people like doing academic research, but I call it pracademic. It's practitioner academic, and that's what the Alliance goes out. So folks go to protect.org they can go to the Institute and see all the research that we've done. And again, it's written for both an academic and a practical audience, practitioner audience. So advisors can do it too. It's all on the web. There's no pay wall. Please feel free to use it. Yeah,

Wade Pfau 38:21

one of the other new studies too. I guess we should definitely mention the the license to spend, which probably also is another term that companies can't use, but the Finca and Blanchet research on how, and this is

Jason Fichtner 38:32
where I didn't say because it wasn't your research way. But we'll bring down the license to spend. And there's, there's two things. One is license to spend, and the other is, stay the course. And that one's a blank piece. The general idea is what we have found, this is important for advisors, too. So the license to spend is basically people. You think about today, if you're working, you get a paycheck, and that paycheck is basically your budget constraint. Out of your paycheck, you pay your rent, your mortgage, your utilities, you save you go to the grocery store, you go to the movies, some travel. That is what economists call a budget constraint, and that becomes your license to spend. Well, let's turn that and use that in retirement. When people don't have an unprotected income, they just see social security, they use that as their budget constraint, and they don't. They're fearful of spending their assets in retirement. They're fear of running out of money so they don't spend as much as they actually could if they converted some of that defined contribution asset base into additional protected income that then gives them more of a license to spend. And what we have found, what Blanchard and Finca have found, is that when people have more protected income, they spend more in retirement because they have that additional license to spend, and that becomes important for financial advisors as well, because what we've also found out through research is that for people who have more protected income, they can leave their other assets under management, and they tend not to touch it as much, especially during market. Own terms, because they have enough protected income now to fill their budget constraint. And they're not worried about, oh my gosh, the market's falling 10% 2030, sell it at the bottle. They're like, Nope, I can afford to ride this out. So it ends up helping both the consumer and the advisor in the long run. And so that's some of the research we're doing as well that fits both the policy aspect and the practical aspect. Can you

Wade Pfau 40:22
give me flashbacks to grad school with the term budget constraint? Wasn't economists

Jason Fichtner 40:28
always economists. I can't drop off the target, but yes,

Wade Pfau 40:32
maximize your utility

Jason Fichtner 40:36
to maximize utility. So I will add one thing too when it comes to social security, we shouldn't be trying to maximize the lifetime income you might get from Social Security. And there are a lot of folks out that try to do that because they get they use it as an asset formula. You are trying to minimize risk in retirement, and one way to minimize your risk is to have more protected income, and that includes by delaying Social Security claiming if you can afford to do so, because that'll give you a higher monthly benefit that's inflation protected for the rest of your life. So what I'd also ask is we start trying to change the narrative framing, from the savings to that, then spending narrative in retirement. We also adopt, we also get rid of this sort of invest, invest, invest, how do I maximize return in retirement? And try to figure out how we maximize income and minimize risk along the way,

Wade Pfau 41:31
across all the different states of the world? Exactly. All right? Alex,

Alex Murguia 41:37
no, well said nothing to add. Just thank you, Jason again, thank you for the update and where things are heading. I mean, it's a bright future, and you're right. What a time to be alive.

Jason Fichtner 41:49
I appreciate you both. Thank you for having me both on and happy Thanksgiving,

Wade Pfau 41:53
likewise. Thank you, Jason. Appreciate it everyone. Next time on retirement style.

Bob French 42:00
Wade and Alex are both principals in McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general, informational and educational purposes only, and are not intended to provide specific advice or recommendations for any individual or on any specific securities to determine which investments may be appropriate for you consult your financial advisor. All investing comes with risk, including Risk of Loss past performance does not guarantee future results.