

KEY TAKEAWAYS FROM DCIIA'S 2016 ACADEMIC FORUM

SESSION I

Shark Attacks and Our Work: How our Beliefs and Abilities Enable us to Retire

Our own personal beliefs about mortality and our cognitive abilities shape our financial decision making behaviors. This session shared insights from new behavioral studies and related them to retirement savings.

Speakers: Geoffrey Sanzenbacher, Boston College; Raphael Schoenle, Brandeis University

Moderator: Joshua Dietch, Strategic Insight, DCIIA Retirement Research co-chair

Highlights:

- The presenters explained that misconceptions about aging have risk. The title of the presentation gets at how people misjudge: despite our perceptions about sharks as vicious man-eaters, cows kill 20 times more people than sharks annually. These types of misconceptions spill into aging and retirement.
- According to Schoenle, the young tend to overestimate the likelihood of dying early and dramatically (e.g., shark attacks), and thus they spend more and have low rates of savings, whereas older individuals tend to over-estimate their life expectancy, save more, and underspend in retirement years. This is problematic, given that consumption is crucial to one's well-being.
- People realize at the wrong time that they haven't saved enough. Specifically, beliefs about survival and longevity change around retirement age (e.g., age 65). Perhaps there is a lifecycle to the utility of our own human capital.
- Sanzenbacher devised a Susceptibility Index to determine which occupation is most susceptible to cognitive decline. Memory, information reordering, inductive and deductive reasoning tend to decline with age, whereas originality, problem sensitivity, and category flexibility don't. In terms of physical decline, explosive strength (e.g., throwing a ball) tends to diminish faster than static strength (e.g., walking around the block).
- Cognitive decline affects both blue and white collar workers; while blue collar workers may be unable to work into their later years because of the physical requirements of the job, white collar workers' ability to perform declines as well but with differential effect. For this second group, those in roles that require upper level cognitive functioning (e.g., nurses, authors) may be less able to perform at former levels.
- Takeaways
 - The importance of making people understand the link between saving and consumption.
 - Study, think about, and help educate people about probability literacy.
 - Push back retirement age and Social Security claiming.

SESSION II

Long-Term Investing in a Short-Term World

As the U.S. retirement system has shifted to Defined Contribution (DC) plans for the majority of employees' retirement security, today's DC plan sponsors should recognize that DC assets have a time horizon of 70 years -- 40 years of saving and 30 years of spending. For this session, the objective was to look at two fairly different approaches to long term-investing: a quantitative look at the influence of long-term holding periods on performance for equity funds, and a qualitative look at the influence of behavioral factors in DC on Environmental, Social, and Governance (ESG) investing.

Speakers: Meir Statman, Santa Clara University; Russell Wermers, University of Maryland

Moderator: Neil Lloyd, Mercer

Highlights:

- Wermers posits that mutual fund managers can be viewed as belonging to two schools: those profitable over the long-term who tend to have low churn, and those profitable over the short-term who tend to profit from short-term informational anomalies. In his study of mutual funds over a five-year period, he found that managers who held equities over a longer horizon outperform managers with short term holdings by 3 percent per annum. Thus, outperformance of superior active managers (SAMs) was driven by long-term holdings.
- Wermers also noted that there could be career risk in being a long-term manager, rather than being focused on short-term performance. He concluded that long-term investors can reap the rewards of active management.
- Statman differentiates between the first and second generations of behavioral finance. The first generation would say that emotional decision-making, such as buying lottery tickets, is irrational. The second generation, however, would say that such people are buying happiness regarding the possibility of winning the lottery. The same logic applies to going to movies: you are paying for a fictional escape, or happiness.
- Statman noted that people often spend money to feel good (e.g. - see a movie, buy a lottery ticket), so investing in a socially responsible manner can make sense to the individual even if the returns aren't comparable.
- Both speakers discussed the pros and cons of investing in SAMs and donating to causes.

SESSION III

Keynote address: Human Frailty: How a Disruption in Aging Will Transform Retirement

Our view of aging is evolving based on new research in the area of human frailty, which offers insights into optimizing health for aging adults. For the defined contribution industry, these advances pose relevant questions in terms of how we help people save, plan, and prepare for retirement.

Speaker: Linda Fried, MD, MPH, Dean, Columbia University Mailman School of Public Health

Moderator: Catherine Collinson, Transamerica Center for Retirement Studies, DCIIA Retirement Research Board

Highlights:

- As we are seeking to extend good health into old age, what will people do with the added longevity? The health of an 80-year old today is comparable to the health of a 70 year-old 20 years ago. Coincidentally, dementia rates are decreasing and researchers have pointed to an inverse correlation between dementia rates and education. Similarly, there is also a negative correlation between dementia rates and income.
- Frailty, which can be defined as the unraveling of health, is a deeply intrinsic biological change during one's life; the ability to 'spring back' or be resilient is critical to well-being.
- If you are healthy when you arrive at the age of 70, you are more likely to remain healthy in your later years, and vice versa. Optimism about aging is also an important factor in how well one ages.
- As a society, we are not using the positive assets associated with aging (wisdom, experience).
- Older people possess valuable skills, largely in the form of their life experience and social network. The largest unanswered questions are if and how they will continue to work longer in keeping with the improved longevity.
- Meaning and purpose increase in value as one ages, so it's important to find jobs or roles for older workers that offer those qualities, such as working with children; this is known as the 3rd demographic dividend. One example cited was Experience Corps, which is a volunteer-based tutoring program that helps children who aren't reading at grade level. Fried discussed a program she led that incorporated older volunteers, and resulted positively for both the children and the volunteer workers.
- To improve public health, we need to help older Americans leave a legacy of meaning and purpose.
- The next frontier for improved longevity will most likely come from improvements in non-communicable diseases, such as heart attacks and strokes.

SESSION IV

Four Decades since ERISA: Rethinking How We Allocate Risks

When Congress passed ERISA, the US had an almost entirely DB system. Now, over 40 years later, we have moved to one that is largely DC. This requires us to take a new look at the ideal way to allocate various risks --- fiduciary, investment, longevity, etc. --- across parties in the space, including participants, plan sponsors, industry, and government. This session featured two eminent ERISA legal scholars on their views on how to optimize risk sharing in today's world.

Speakers: Dana Muir, University of Michigan; Jonathan Forman, University of Oklahoma

Moderator: Michael Kreps, Groom Law, DCIIA Retirement Research Board

Highlights:

- Muir noted that the market has changed so much since the 1970s when ERISA was enacted that the assumption that employers were the right stakeholder to bear fiduciary duty no longer holds true (if in fact it made sense then). Furthermore, the trust model used for defined benefit plans was not designed for DC plans.
- Muir pointed out that employers have never had their interests aligned with participants, although there is a benefit to the participant of having an intermediary.

- A major benefit of the U.S. pension system was the flexibility it gave plan sponsors over workforce management. If an employer wanted to downsize, it could offer a lump sum payout. The pension vesting rules could also act as a form of golden handcuffs.
- Muir noted that putting fiduciary risk on employers is problematic because their interests aren't aligned with plan participants. She pointed to some tools, such as Qualified Default Investment Alternatives (QDIAs) to mitigate risks. Muir also pointed to fiduciary models used in other countries where either the government or providers are held responsible.
- Fiduciary models from other countries, including Australia, Denmark and Canada, were contrasted with the US system.
- The panelists also discussed longevity risk, noting that vehicles for better apportioning risk may be appropriate.

SESSION V

Auto Enrollment: Comprehensive Plan Design

During the past decade, much research has been published demonstrating the positive relationship between automatic enrollment and desirable savings behavior. However, there has been some concern among policy makers that automatic plan features can negatively impact savers by increasing consumer debt. This session looked at brand new findings that study this question in depth, and suggests some modest adjustments in plan design that can protect against these potential negative consequences.

Speakers: Jack VanDerhei, Employee Benefit Research Institute (discussant); John Beshears, Harvard Business School

Moderator: James Smith, Morningstar, DCIIA Executive Committee

Highlights:

- Beshears and his colleagues have found that for a small proportion of participants in their study, some who were auto enrolled by employers were increasing their credit card debt proportionately, although the account balances did not necessarily reflect this because of the positive effect of the employer match.
- Beshears and team noted these results are preliminary and should be extended to a broader population.
- VanDerhei, in his role as discussant, reviewed these findings and confirmed their validity. In his review of Beshears' research, VanDerhei noted that for the whole 401 (k) universe, when looking at the difference in savings behavior between voluntary enrollment and auto enrollment, participants would need to borrow 4-5% annually to completely offset the additional contributions under auto enrollment.
- VanDerhei also noted that the study sample may not be applicable to the broad population, the analysis focused exclusively on auto enrollment (excludes other plan design features such as auto escalation), and the short period under study.

SESSION VI

Plan Sponsor Perspectives

Executives from the plan sponsor community offered feedback on the new ideas presented during the day's academic sessions. This session provided insights into practical implications of some of the day's findings.

Speakers: Jaime Erickson, Comcast-NBCUniversal; Cindy Cattin, Exelon Corporation; James Kavanagh, Trustee Decisions

Moderator: Lew Minsky, DCIIA

This session was off the record.

SESSION VII

Closing keynote: Navigating Geopolitical Risks in a Connected World

This session featured a global security expert who will shared his observations on current major areas of geopolitical concern. He focused on Russia and Putin's strategic intent, Russia's Syria gambit, and Russia's alleged involvement in the U.S. election. He also discussed ISIS and the challenges it presents going forward. He then shared some observations on the geopolitical challenges facing the new U.S. administration.

Speaker: Robert Dannenberg, Senior Consultant on Security Risk, Former Head of Global Security, Goldman Sachs

This session was off the record.