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Editor's Letter

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We retirement thinkers are living in exciting and frustrating times. Thanks to demographic shifts in countries around the world, growing awareness of what those shifts mean, program triumphs and disasters, and foundational research on all of the above, we recognize the importance of gaining a better understanding of behavior, finance, and law in order to improve retirement outcomes. I say better because although we are unlikely to get to perfect, we can strive for better.

To that end, this editor's letter focuses on three things. The first one is aspirational, to announce a call for articles for three special issues on the following topics:

1. Sharpe's work on retirement income analysis;
2. the effects of Rothification; and
3. gender, race, and retirement.

The second is honorific—namely, to reflect on John (Jack) Bogle's influence on retirement. The third is to highlight how the articles in this edition assist us in the broader topic of improving retirement outcomes.

SPECIAL ISSUES

These topics emerged from discussions with the editorial board of *The Journal of Retirement* (JOR) and other researchers in the field, along with some soul searching about gaps that may need to be filled and opportunities we should seize. Together, they don't follow a single agenda, but they address a broad range of current concerns about retirement. Articles on each of these topics would either replace regular issues of JOR or be additional issues in 2020 and 2021.

1. **Sharpe on Retirement Income Analysis**. Many readers of JOR know that several years ago, William Sharpe embarked on a challenging project to better understand and solve the retirement income problem, a topic that is central to our time and has been the subject of numerous articles in JOR and elsewhere—and one that is still in need of our best efforts. Therefore, this call for articles is inspired by Sharpe's online book *Retirement Income Analysis*, available at https://web.stanford.edu/~wfsharpe/RISMAT/.

   Each chapter of Sharpe's book includes his code for solving the problem addressed in that chapter's topic. The list of topics includes spending rates, fixed and variable annuities, inflation protection, ratchets, lockboxes, the market portfolio, fees, and

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much more. Articles that address the issues in one or more of these chapters will be gathered into a special issue of JOR. An article might also examine closely a topic that isn't covered in the book and should be. Moreover, the implications of this book include social, psychological, and regulatory issues, and we would encourage work from these perspectives. All of this effort will serve two purposes: to shed additional light on the challenges of creating and sustaining an appropriate retirement income and to honor and extend Sharpe's contributions to this critical area. We also may be able to persuade Sharpe to contribute to this special issue on one of these topics (in particular, ratchets).

2. **Rothification.** Recently, the federal government considered making a fundamental change in qualified defined-contribution programs—namely, to eliminate or reduce the ability for individuals to shelter contributions from income taxes. Instead, as in the current Roth IRA model, taxes would fall on contributions and withdrawals would be untaxed. The initial estimate was that full "Rothification" would raise about $450 billion in federal income tax revenue over 10 years. Yes, we know that if we extended the analysis beyond 10 years to include a full life cycle (and assumed no change in tax rates), the effect of Rothification on tax revenue would be zero compared with the current system. Given current budget scoring, which has a window of 10 years, the proposal seemed attractive as an offset to other proposed tax reductions.

   The tax reduction bill that ultimately emerged did not change taxes on qualified contributions, but we've been told the idea isn't going away. A future tax bill could easily include full or partial Rothification in an effort to reduce the federal deficit.

   The problem is that this proposal raises questions we don't know much about. Some of these questions, which can be addressed by articles in a special issue, include the following:

   - Would individuals save more, less, or the same with full Rothification, and how would this affect retirement savings adequacy (better or worse)?
   - How would this change affect initial saving rates as well as "leakage"?
   - How might changes in saving patterns vary by income, wealth, cohort, age, gender, and other characteristics?
   - What might be the net effect on tax revenues over the full life cycle?
   - What about partial Rothification, whereby a portion of contributions (say, a ceiling somewhere between $2,500 and $10,000) remained untaxed until withdrawal and where the rest was taxed up front?
   - How might projected future income tax rate changes affect savings?

   We are aware that these policy-related questions are informed by the growing body of evidence on retirement saving patterns and their determinants, including savings "crowding," financial literacy, and incentives. The overarching issue is whether the contributors to JOR can shed some light on a topic that could easily be the subject of considerable debate when legislators and other policymakers begin to seek new sources of tax revenue. And, regardless of whether Rothification passes, this work will inform us about the relationship between intended and unintended incentives and effects on retirement savings.

3. **Gender, Race, and Retirement.** Gender and race are distinct areas of interest, and there has been interesting work on both in relation to retirement behavior and financial security. Nevertheless, much of the research on retirement does not distinguish by gender or racial categories, and we have much to learn about different behaviors, circumstances, and needs. We would like to encourage additional work in both of these areas:

   - What characteristics associated with gender, race, and ethnicity are relevant to retirement planning? What difference do they make?
   - How can we separate gender and race effects from income and wealth effects?
   - Where have we seen employer retirement plans that have been designed for the needs of women

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and/or minorities? How, if at all, do those plans differ from more "generic" retirement plans, and what effects can we observe?
- Similarly, where have we seen individual retirement planning for women and minorities? How should we assess those efforts?
- If we could do so, how should retirement plans and planning be designed to recognize differing demographics, circumstances, behaviors, and needs of women and minorities?
- What are the implications for public policy of retirement planning that reflect gender, race, and ethnicity?

Note that, once again, these questions are not just financial and economic in their implications. They suggest the need for social and psychological and public policy perspectives to improve our understanding of the issues and possible solutions.

Taken together, these three topics far from cover the full range of interesting and pressing issues that could or should be the subject of research on retirement. They are just the start of what we hope will be a lively multidisciplinary discussion of contributions from a wide range of researchers. So, let me know. I can be reached at brett.hammond@capgroup.com or (213) 486-9967 to discuss your thoughts and ideas for an article you would like to craft and submit.

JOHN CLIFTON BOGLE

Jack Bogle passed away on January 16, 2019. We all know about his profound influence on long-term investing through presenting low-cost index or passive mutual funds as superior to active management. Largely based on this approach, in 1974, he became the founder and first chief executive officer of Vanguard, which pioneered the index mutual fund and has grown to over $5 trillion in assets under management. In 1999, *Fortune* rightly named him one of four investment giants of the 20th century. Moreover, during his time at Vanguard and after his retirement in 1996, he was a tireless advocate for his investment philosophy and how it could benefit investors. He published 10 books on investing and/or the Vanguard Group, as well as numerous articles, and gave countless speeches, even where active investment managers were known to be present. He remained in the news until near the end of his life by pointing out that Vanguard may have grown too big to remain efficient.

All these things are well known. I add one somewhat less-known fact and one conclusion. In addition to advocating for passive investing, Bogle oversaw the creation of one of the largest, most successful set of actively managed mutual funds in the world. Today, Vanguard manages or sponsors more than $1 trillion in actively managed mutual funds, which together are among a handful of large active managers with the best track records in the industry. Some of these are in partnership with Wellington, from which Bogle was fired for cause in 1974.

My conclusion is that Jack Bogle indeed has had a gigantic impact on retirement for millions of people, first here in the United States and now in Australia and other countries around the world, where mutual funds play a large role in retirement investing. That impact has a long tail. Current and future retirement investors will benefit from his low-cost approach throughout their lifetimes. This holds true for those who place their assets at Vanguard and, remarkably, for those investing in funds and exchange-traded funds (ETFs) offered by other companies that were influenced by what Bogle accomplished. His influence is wide and sustaining, and we owe him an enormous debt of gratitude, as long as he lets us keep the extra retirement income.

This issue of JOR has two broad themes. The first addresses the challenges associated with stewardship, or the sponsor's and advisor's responsibilities to the participants they serve to help them achieve an adequate retirement income.

The article by Clark and Monk, "Asset Owners, Investment Management, and Commitment: *An Organizational Framework*," bravely raises a fundamental problem in pension asset management—the principal-agent problem and how an asset owner can address it. They rightly talk about culture (or as I put it, stewardship) and practical ways to exercise it through appropriate metrics.

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They cite three broad types of metrics that should be regularly assessed: (1) In addition to the usual short-term risk-adjusted rate of return, a long-term return that links to "beneficiaries' welfare" or pension liabilities, both for the asset owner as a whole and for each asset class or team; (2) the specific skills, expertise, and commitment of the staff appropriate to the long-term mission of the organization; (3) costs of the investment department compared with the costs of outsourcing all or parts of the investment operation; and (4) access to deals and quality of investment relationships. By focusing on these metrics, asset owners and boards can broaden their scope to assess what matters in achieving the long-term mission in service to the participant.

In "Assessing Fee Fairness: *Characteristics of an Effective Plan Fee Structure*," Goodman and Richardson consider a specific aspect of pension stewardship: retirement plan administrative fees. They apply three efficiency standards—adequacy, transparency, and administrative—and a fairness standard. Using data from a large plan, they conclude that pro rata fee structures satisfy all four standards, while per capita fee structures are highly regressive and therefore fail the fairness standard. This finding sheds light on an underexamined aspect of defined-contribution plan design and should challenge plan sponsors and consultants to apply all four standards in redesigning their fee structures.

Another aspect of pension stewardship is how it might redound to the plan sponsor. In "Correlation between 401(k) Plans and Corporate Financial Performance," Banerjee, Bankert, Dietch, Nanda, and Zhu use a company ratings database to show a significant correlation between better plan design and corporate profitability. They point out repeatedly that correlation is not causation; it is possible that companies that are already profitable are more likely to offer better pension plans. Nevertheless, companies could conclude that plan design may play a role in getting the best out of their employees.

The final article under the banner of stewardship is by Sethi, Spiegel, and Szapiro—"Conflicts of Interest in Mutual Fund Sales: *What Do the Data Tell Us*?" The authors find that after the passage of the Dodd–Frank legislation and announcement of the proposed "Fiduciary Rule," advisors and brokers more rigorously screened the products they recommended to investors for expenses. Using data from public filings and Morningstar returns, they show that prior to Dodd–Frank and the proposed rule funds that paid higher-than-expected loads to brokers reduced investors' net returns, but afterward, this relationship weakened significantly. Of course, the question now is whether, with the demise of the Fiduciary Rule, brokers as well as advisors will relax their expense screens and practices.

This issue also contains two articles on Social Security. In "Irrational Expectations, Future Social Security Benefits, and Life Cycle Planning," Turner, Zhang, Hughes, and Rajnes compare public attitudes toward Social Security systems in Canada, Ireland, and the United States and find a surprising pessimism and lack of trust, despite the absence of rhetoric in Canada and Ireland about the systems there being "broken" (as we see in the United States). They go on to discuss possible reasons for these findings and the role expectations can play for families and individuals planning for a future that may or may not involve benefit cuts.

The other article on Social Security, by Reichenstein and Meyer, "Optimizing Social Security Benefits Is Still Complicated," is silent on the future of the system and focuses instead on the effects of the Bipartisan Budget Act of 2015, which supposedly made navigating Social Security claiming easier for individuals. They show that the rule changes do not come close to addressing the extraordinarily complex rules that still make a Social Security claiming decision confusing, even separate from the effects of unknown future mortality. They argue that most Americans would benefit from a simplified rule structure that made it easier to understand how and when to take Social Security benefits.

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Editor

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