Topics in Finance: Managing Retirement Wealth

Spring 2010

6 Classes Tuesdays 6:00 to 9:00PM
B40.3176
1.5 Credits
Office Hours 5:00 to 6:00 on Tuesdays

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This course has three broad subjects:

(1) What are successful strategies for individuals to accumulate, manage and protect their retirement wealth? The course will also explore why most Americans fail to find such strategies.

(2) What are opportunities in managing the $12 trillion of accumulated U.S. retirement wealth? What are the opportunities for investors, advisors and analysts?

(3) What are the problems and solutions for financing our national government retirement related entitlements?

Textbooks:

Text books for the course will cost less than $50 (current Amazon.com prices for new editions) and include three paperbacks.

- Coming up Short by Alicia Munnell on 401(k) plans
- Fundamentals of Employee Benefit Program, a handbook published by the Employee Benefit Research institute
- Restoring Fiscal Sanity the Brookings Institute
Teaching Method

Lectures, debates and guest presentations will be used in the course. Experts on 401(k)s, investing, and managing corporate pension funds will present their distinct perspectives.

Student participation will be expected as current events raise questions.

Case studies and interesting media coverage will be put on Blackboard for class discussion.

Since student participation will be recognized in grading please be sure to keep your nameplate in front of you.

Grading

Class participation: 20% (attendance will help this element)
One take-home problem set: 40%
One 5 to 10 page research paper: 40%

Outline of Classes (Preliminary)

Session 1
Accumulating Retirement Wealth
Advantages with Defined Contribution (DC) over Defined Benefit (DB)
Successes and failures of DC plans
Riskiness of DB plans
Arithmetic of tax deferral (Roth vs. traditional)

Readings:
From Munnell, EBRI Handbook and papers posted on Blackboard

Session 2
Wealth Retirement through DC plans
How behavioral finance can “nudge” savers toward better strategies
Advantages of later retirement
Varieties of DC plans (401k)’s, IRA’s, 403(k)’s and self-employed
Guest expert on investing personal funds
Readings:
Munnell, EBRI and papers on Blackboard

Session 3
DB Plans from Corporate Viewpoint
Riskiness of DB plans
Conflicts with financial reality and economic optimists
De-risking DB plans
Basic asset-liability management
Readings:
EBRI handout, papers posted on Blackboard

Session 4
How to escape DB plans – cash balance and other hybrids. Comparable DC plans.
Unintended consequences of federal regulation
Pension Benefit Guarantor Association
Guest lecturer on DB plans
Readings:
EBRI and papers posted on Blackboard

Session 5
How to spend retirement wealth
Longevity vs. early retirement
Annuities -- fixed and variable
Long term care insurance
Readings:
EBRI and papers on Blackboard

Session 6
Over regulation of tax favored plans
How to manage federal entitlements (Social security, Medicare, PBGC)
How to fix Medicare, Social Security, Medicaid and the PBGC
Guest pension lawyer
Readings:
Brookings: Restoring Financial Security
Papers on Blackboard