To the Editor:

In the article “Aging & Investing: The Risk of Cognitive Impairment” (September 2011 AII Journal), when David Laibson says that “Fluid intelligence would be the kind of intelligence used to solve a typical IQ question,” he implies incorrectly that IQ tests measure only fluid intelligence. The Wechsler Adult Intelligence Scale, the most widely used IQ test administered by psychometricians and psychologists, assesses at least as much crystallized as fluid intelligence, including subtests of Information and Vocabulary. Indeed, the Vocabulary subtest correlates most highly with the full-scale IQ.

Another point is that statistical relations that pertain to the entire population, which David Laibson discusses, cannot be generalized to members of AII, who are a highly selected, non-random subset of the population, whose average level of education (and, almost certainly, average IQ) substantially exceed those of the general population. Only a small minority of the general population suffers mild cognitive impairment (MCI) and even fewer of the more educated.

To recommend actions to be taken by an individual based on group means is always illegitimate, but the error is greatly magnified when the individual comes from a highly selected subset of the population that is not even described by general group means.

Jerre Levy, Ph.D., Professor Emerita
Department of Psychology (Cognitive Neuroscience)
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Posted Comment:

David Laibson has done a signal service to all of us elderly geezers, and even some not so decrepit, in this excellent article, which states frankly and candidly the perils of not only dementia but also CIND (cognitive impairment not dementia), the less serious form of the problem.

Tristan from Arkansas

Comments Posted to “Retirement Spending on Planet Vulcan: Longevity Risk and Withdrawal Rates,” by Moshe A. Milevsky and Huaxiong Huang, September 2011 AII Journal:

You really had to want to read this article to get through it. I believe it tried to say, “If you have a guaranteed pension income for life, you are well ahead of those who must rely on what they saved for retirement without the benefit of a guaranteed pension.” Of course you can spend more, because the basic necessities are taken care of with the guaranteed pension. The savings beyond that are a luxury that you can enjoy as you see fit.

It all boils down to what you need in the way of income to meet your needs. Those needs vary by individual.

This was an interesting article that required an intensive amount of concentration just to understand why it was being written.

Donald from Texas

Back in 2003, AII published a chart in the annual Guide to the Top Mutual Funds titled “Withdrawal Plans: How Long Will Your Capital Last?” The ordinate (vertical axis) showed average annual growth percentages from 1% to 12% (of capital) and the abscissa (horizontal axis) showed annual withdrawal rates ranging from 5%–16%. In other words, you could determine how long your capital would last withdrawing any percentage from 5% to 16% annually paired with any growth rate between 1% and 12% annually. It is the single best chart I’ve ever seen (in my 68 years) for determining retirement spending at a glance, because financial circumstances change continually and unexpectedly. Simply looking at the chart will allow you to determine in a few seconds whether you should increase, decrease or leave as-is your withdrawal rate.

Ted from California