

Risky Business: Living Longer Without Income for Life

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Nancy Bennett, FSA, CERA, MAAA

Senior Life Fellow

American Academy of Actuaries

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Today's Discussion

- Lifetime Income Risk and Possible Consequences
- Possible Solutions to the Problem of Lifetime Income Risk:
 - Insurer Responses
 - Role of Insurance Regulators
 - Consumer Priorities
- Introduce the Academy's Lifetime Income Initiative



Lifetime Income and Longevity Risk

- Longevity risk reflects the challenges of living longer, e.g., poor health, reduced ability to manage investments, difficulty living on one's own, depletion of assets, lack of a lifetime income, etc.
- Lifetime income risk, the risk of outliving assets, is one specific type of longevity risk
- Lifetime income should be structured to cover basic needs

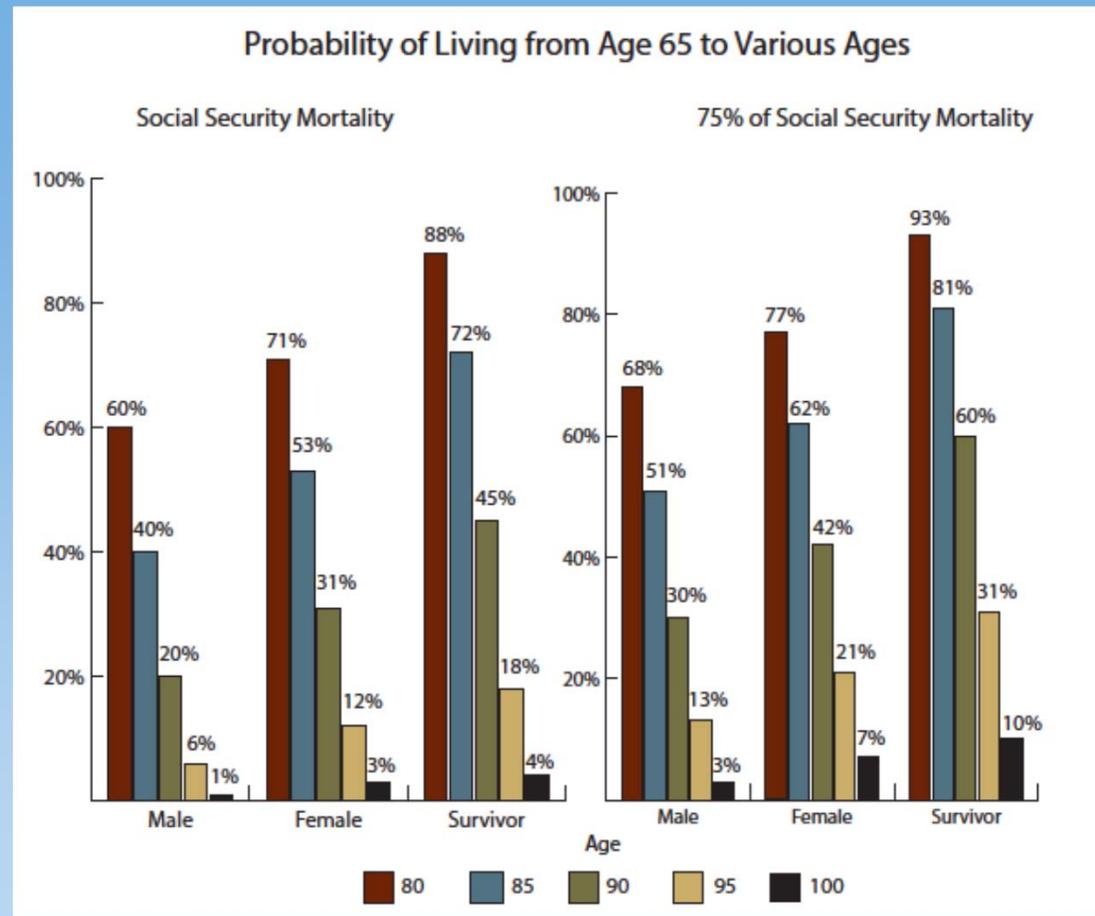


Why is Lifetime Income Risk an Issue?

- Americans are living longer
- An increasing number of retirees as baby boomers reach retirement age
- Migration from defined benefit plans to defined contribution plans has reduced the source of predictable retirement income
- Retirees have saved or invested inadequately or lost significant savings in the market slides since 2000
- Retirees are not converting savings into lifetime income
- Uncertainty about the direction of Social Security magnifies the problem



Probability of Living to Certain Ages in Retirement



*Analysis of the 2007 period life table for the Social Security area population, <http://www.ssa.gov/oact/STATS/table4c6.html>



Time to Act

- Workers and retirees need to be better prepared to manage their lifetime income needs in retirement
- A number of actions need to be taken to change the dynamics and provide much needed financial education
- The problem cannot be solved with a single solution, but rather with a number of approaches that address lifetime income from different directions
- The support and efforts of employers, lawmakers, and financial product providers will be necessary



Insurer Responses

- Recognize both the opportunity and the risks associated with the need for lifetime income security
- Adapt product offerings to respond to consumer demands and insurers' tolerance for risk
 - Contingent deferred annuities
 - Deferred Income Annuities (aka Longevity Annuity)
 - Accelerated Benefits Riders on Life Insurance Policies
 - Combination products (e.g., annuity/LTC)
- Increase sophistication of risk management to manage new or increased risk exposures



Role of Insurance Regulators

- Assure/Increase consumer protection
 - Strengthen suitability requirements
 - Strengthen sales practices
 - Evaluate fiduciary standard for insurance agents
- Evaluate effectiveness of existing regulations in a global marketplace
- Adapt regulatory oversight to a more complex insurance marketplace through more risk-focused regulation



Consumer Priorities

- Recover losses from recent financial crisis and continuing lackluster economy
- Seek greater financial security
- Accumulate assets for retirement
- Secure an income stream for lifetime



Academy Lifetime Income Initiative

- The Academy's lifetime income initiative is part of its continuing effort to provide objective, unbiased information to serve the public and the United States actuarial profession
 - Promote meaningful discussions both within and outside the profession
 - Actively engage with the public policy community
 - Host discussion symposia on longevity, longevity risk, and lifetime income
 - Develop actuarial policy statements



Academy Lifetime Income Initiative

- The American Academy of Actuaries is committed to exploring the challenges of Americans securing a lifetime income, addressing the actuarial and public policy aspects of lifetime income, and raising the level of understanding and awareness of the actuarial profession, public policymakers, and the general public to the need to address lifetime income issues.
- The Academy will continue to work on initiatives to educate all stakeholders and will recommend public policy choices as appropriate. Forthcoming Academy initiatives include, among other projects, several papers on more specific lifetime income issues.



Additional Resources

- Lifetime Income Initiative Webpage <http://www.actuary.org/content/lifetime-income-initiative>
- *Risky Business: Living Longer Without Income for Life* (June 19, 2013)
http://www.actuary.org/files/Risky-Business_Discussion-Paper_June_2013.pdf
- Written testimony for a Senate Special Committee on Aging hearing on retirement savings (June 11, 2010) http://www.actuary.org/files/AAA_for_6-16-10_Senate_Aging.4.pdf/AAA_for_6-16-10_Senate_Aging.4.pdf
- Letter to the departments of Labor and Treasury regarding lifetime income options for participants and beneficiaries in retirement plans (May 3, 2010)
http://www.actuary.org/files/Lifetime-Income-RFI_Comments_May-3-2010.pdf
- Letter to the department of Labor regarding lifetime income options for participants and beneficiaries in retirement plans (May 8, 2013)
http://www.actuary.org/files/PC_Comments_DOL_lifetime-income-statements-ANPR_Aug-7-2013.pdf



Contact Information

Nancy Bennett, Senior Life Fellow
bennett@actuary.org

John Meetz, Life Policy Analyst
meetz@actuary.org

