

# LONGEVITY AND RETIREMENT SECURITY

U. S. Chamber of Commerce  
“The Shifting Paradigm of Retirement”  
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# About the Academy

- The American Academy of Actuaries is a 19,000 member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.



# Longevity becoming a common term in retirement vernacular

- Definitions of longevity risk include:
  - Individuals outliving their financial resources.
  - Uncertainty about future mortality improvements.
  - Additional cost to a system or to society at large.
  - Adverse consequences of living a long time.



# Yes, we are living longer and aging as a society

| Years | Retiree | Spouse | Either | Both |
|-------|---------|--------|--------|------|
| 0     | 100%    | 100%   | 100%   | 100% |
| 5     | 93%     | 95%    | 100%   | 88%  |
| 10    | 83%     | 89%    | 98%    | 74%  |
| 15    | 71%     | 79%    | 94%    | 56%  |
| 20    | 54%     | 65%    | 84%    | 35%  |
| 25    | 34%     | 46%    | 64%    | 16%  |
| 30    | 16%     | 25%    | 37%    | 4%   |
| 35    | 5%      | 10%    | 14%    | 0%   |

A couple age 65 in 2017 have an 84% chance at least one will live to age 85 and 14% chance at least one will live to 100.

Source: Actuaries Longevity Illustrator

The number of Americans ages 65 and older is projected to rise from 15% to 24% by 2060.

Source: Population Reference Bureau

| Years | Retiree | Spouse | Either | Both |
|-------|---------|--------|--------|------|
| 0     | 100%    | 100%   | 100%   | 100% |
| 5     | 95%     | 97%    | 100%   | 92%  |
| 10    | 89%     | 92%    | 99%    | 82%  |
| 15    | 79%     | 85%    | 97%    | 68%  |
| 20    | 66%     | 75%    | 92%    | 50%  |
| 25    | 49%     | 59%    | 79%    | 29%  |
| 30    | 29%     | 39%    | 57%    | 12%  |
| 35    | 13%     | 20%    | 30%    | 2%   |

The same couple, but now age 25, will have a 92% chance at least one will live to age 85 and a 30% chance at least one will live to 100.

Source: Actuaries Longevity Illustrator

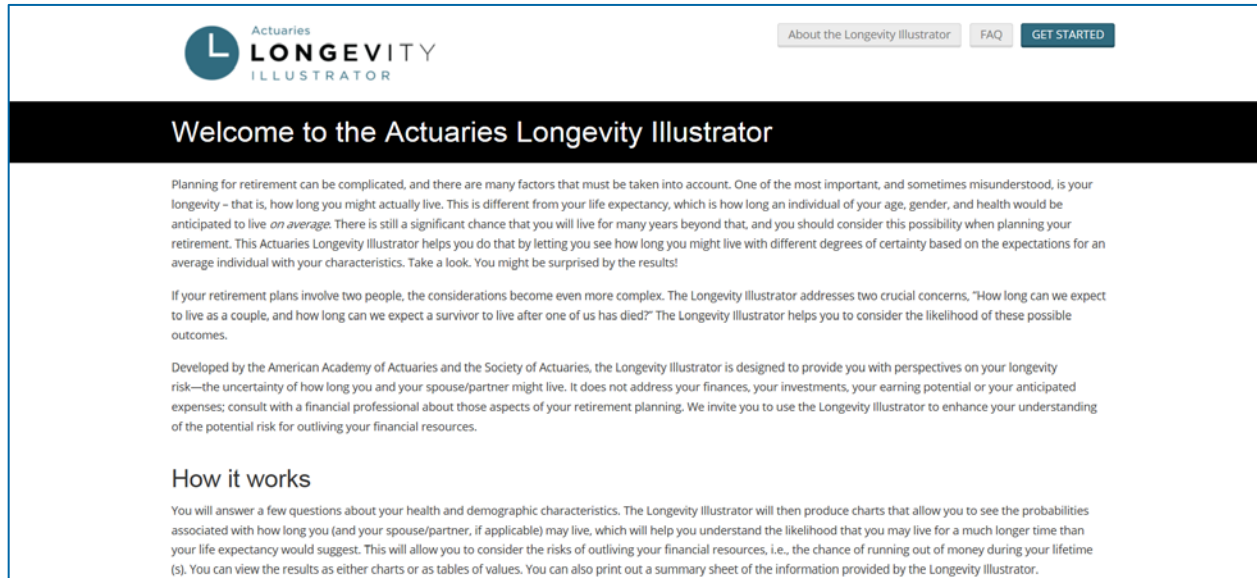


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# The Actuaries Longevity Illustrator — [www.longevityillustrator.org](http://www.longevityillustrator.org)



The screenshot shows the homepage of the Actuaries Longevity Illustrator. At the top left is the logo, which consists of a blue circle with a white 'L' inside, followed by the text 'Actuaries LONGEVITY ILLUSTRATOR'. To the right of the logo are three navigation buttons: 'About the Longevity Illustrator', 'FAQ', and 'GET STARTED'. Below the navigation is a black banner with the text 'Welcome to the Actuaries Longevity Illustrator' in white. The main content area has a white background and contains three paragraphs of text. The first paragraph explains that planning for retirement is complicated and introduces the Longevity Illustrator as a tool to help understand life expectancy. The second paragraph discusses how the tool handles couples' retirement plans. The third paragraph mentions that the tool is developed by the American Academy of Actuaries and the Society of Actuaries and is designed to provide perspectives on longevity risk. Below the text is a section titled 'How it works' which describes the user's experience: answering questions about health and demographics, receiving charts, and the ability to print a summary sheet.

Actuaries  
**LONGEVITY**  
ILLUSTRATOR

About the Longevity Illustrator    FAQ    **GET STARTED**

## Welcome to the Actuaries Longevity Illustrator

Planning for retirement can be complicated, and there are many factors that must be taken into account. One of the most important, and sometimes misunderstood, is your longevity – that is, how long you might actually live. This is different from your life expectancy, which is how long an individual of your age, gender, and health would be anticipated to live *on average*. There is still a significant chance that you will live for many years beyond that, and you should consider this possibility when planning your retirement. This Actuaries Longevity Illustrator helps you do that by letting you see how long you might live with different degrees of certainty based on the expectations for an average individual with your characteristics. Take a look. You might be surprised by the results!

If your retirement plans involve two people, the considerations become even more complex. The Longevity Illustrator addresses two crucial concerns, “How long can we expect to live as a couple, and how long can we expect a survivor to live after one of us has died?” The Longevity Illustrator helps you to consider the likelihood of these possible outcomes.

Developed by the American Academy of Actuaries and the Society of Actuaries, the Longevity Illustrator is designed to provide you with perspectives on your longevity risk—the uncertainty of how long you and your spouse/partner might live. It does not address your finances, your investments, your earning potential or your anticipated expenses; consult with a financial professional about those aspects of your retirement planning. We invite you to use the Longevity Illustrator to enhance your understanding of the potential risk for outliving your financial resources.

### How it works

You will answer a few questions about your health and demographic characteristics. The Longevity Illustrator will then produce charts that allow you to see the probabilities associated with how long you (and your spouse/partner, if applicable) may live, which will help you understand the likelihood that you may live for a much longer time than your life expectancy would suggest. This will allow you to consider the risks of outliving your financial resources, i.e., the chance of running out of money during your lifetime (s). You can view the results as either charts or as tables of values. You can also print out a summary sheet of the information provided by the Longevity Illustrator.

Jointly sponsored by the American Academy of Actuaries and the Society of Actuaries



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# The good news and bad news of living longer...

- Good news – more life to enjoy
- Senescence: The process of growing old. It's important to add healthy years/assure quality of life for the extended lifetime.



# The good news and bad news of living longer...

- Bad news – it costs more
- Expenses during retirement could be as much as 20% to 35% higher for those with long lifetimes.\*

\* From “Challenges and Strategies: Financing a Long Lifetime”, December 2015, by Vickie Bajtelsmit, Anna Rappaport, and Tianyang Wang, Society of Actuaries. The study measured the wealth needed by a median household at age 66 with a 90% confidence of meeting household expenses during retirement. The longer lifetimes were for those in the upper 1/3 of longevity.



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# Longevity considerations for workers and retirees

- We live in a defined contribution (DC) world. Ultimate risk/responsibility lies with the employee.
- Many don't have the requisite knowledge and skills.
- Low understanding of longevity risk.





# Longevity considerations for workers and retirees

- Reluctant to seek/hire professional help
- Reluctant to purchase lifetime income (annuities)
- Rules of thumb don't always work
- Planning for retirement “shocks” is more difficult with longer lifetimes – early retirement, health, inflation
- Defined benefit (DB) benefit “promises” at risk



# Longevity considerations for workers and retirees

- Over- or under-estimating one's years in retirement can lead to poor decisions and unwanted consequences.



# Longevity considerations for employers

- Increases cost of DB plans
- Increases workforce management challenges
  - ▣ Less control with DC plans
    - No target retirement age communicated
    - Difficult to provide early retirement incentives
  - ▣ Attraction and retention challenges
  - ▣ The new retirement age – work until you can't?
- DC features are evolving, but automatic features can provide false sense of retirement security



# Addressing Longevity

- Employer-provided resources (e.g., education, tools) to help understand longevity and how to plan for retirement
- Public policy approaches
- Plan/product innovations
  - Shared DB risk plan designs – include lifetime income
  - Behavioral DC plan designs – “smart” automatic features and defaults
  - Lifetime income solutions, including longevity annuities (QLACs)



# Thank You

## AGING SECURELY

ADDRESSING OUR HEALTH AND RETIREMENT NEEDS

For more information, visit

<http://www.actuary.org/content/aging-securely>

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