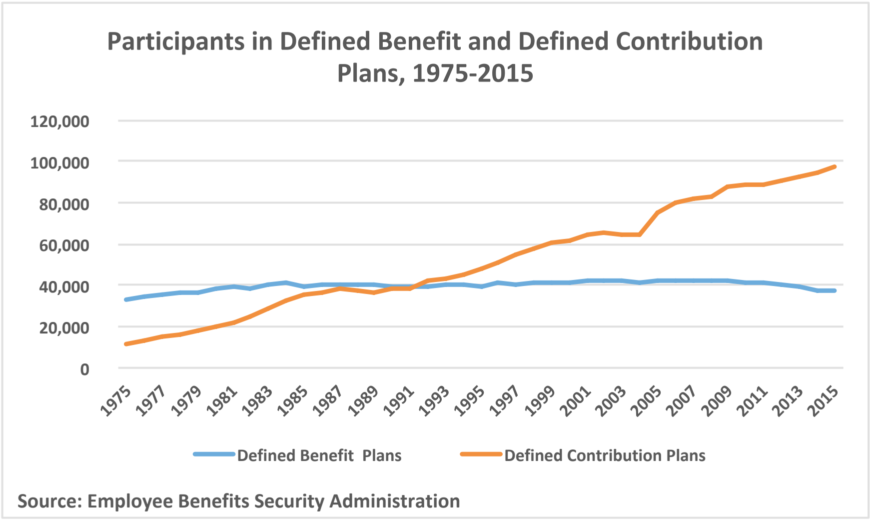
American Academy of Actuaries
Essential Elements
Making complex public policy issues clear
APRIL 2018

Income to Last a Lifetime



Americans planning for retirement today face more individual responsibility and risk for their retirement incomes than prior generations experienced, partly due to the decline of traditional defined benefit pension plans that pay lifetime monthly benefits. With the Baby Boomer generation starting to retire, many are discovering they may have not taken sufficient steps to manage the challenges that come with replacing their former paychecks with adequate monthly income during retirement.

Of course, putting sufficient retirement funds aside in your working years is critical. But part of the retirement security challenge involves longevity risk—the risk of living beyond average life expectancies—that adds more complexity to retirement planning because, apart from their monthly Social Security check, people face outliving the income provided by their assets.

Many retirees take lump-sum distributions from their 401(k) defined contribution accounts, individual retirement accounts (IRAs), and other retirement funds that they may have accumulated over decades of work. However, they might lack access to adequate information about how to use those funds to create an income stream to pay their everyday living expenses in retirement. While adding money monthly to a 401(k) or IRA account during the working years might become routine for some, workers and retirees often face hurdles to obtain objective, easy-to-understand information about how to finance their retirement and where to find the right solutions to manage their lifetime incomes.

What can be done to lower these obstacles to help better prepare current and future retirees to secure and manage their lifetime income?

Many approaches may be needed to help future retirees secure lifetime incomes to provide them with the security and dignity of personally managing their retirement. The range of approaches will require participation from all stakeholders: policymakers, actuaries, employers, financial planning advisers, and financial product and service providers. Possible approaches consist of reevaluating federal retirement policies, emphasizing financial literacy and education, and refocusing retirement plan designs.

Reevaluating Federal Retirement Policies

- Address Social Security's long-term funding issues to ensure the program's stability and assure retirees that they can plan accordingly.
- Increase the Social Security maximum age for delayed retirement credit beyond the current age 70 to allow additional flexibility in addressing longevity risk.
- Modify the age for required minimum distributions (RMD) in retirement plans beyond 70½ years to reflect increasing life expectancies, and implement proposed regulations that allow longevity annuities to satisfy RMD rules.
- Reduce insecurity about pensions generally by highlighting the value of the Pension Benefit Guaranty Corporation and ensuring the program remains sufficiently strong.

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Are Americans Prepared for Retirement Challenges?

Among working-age Americans:

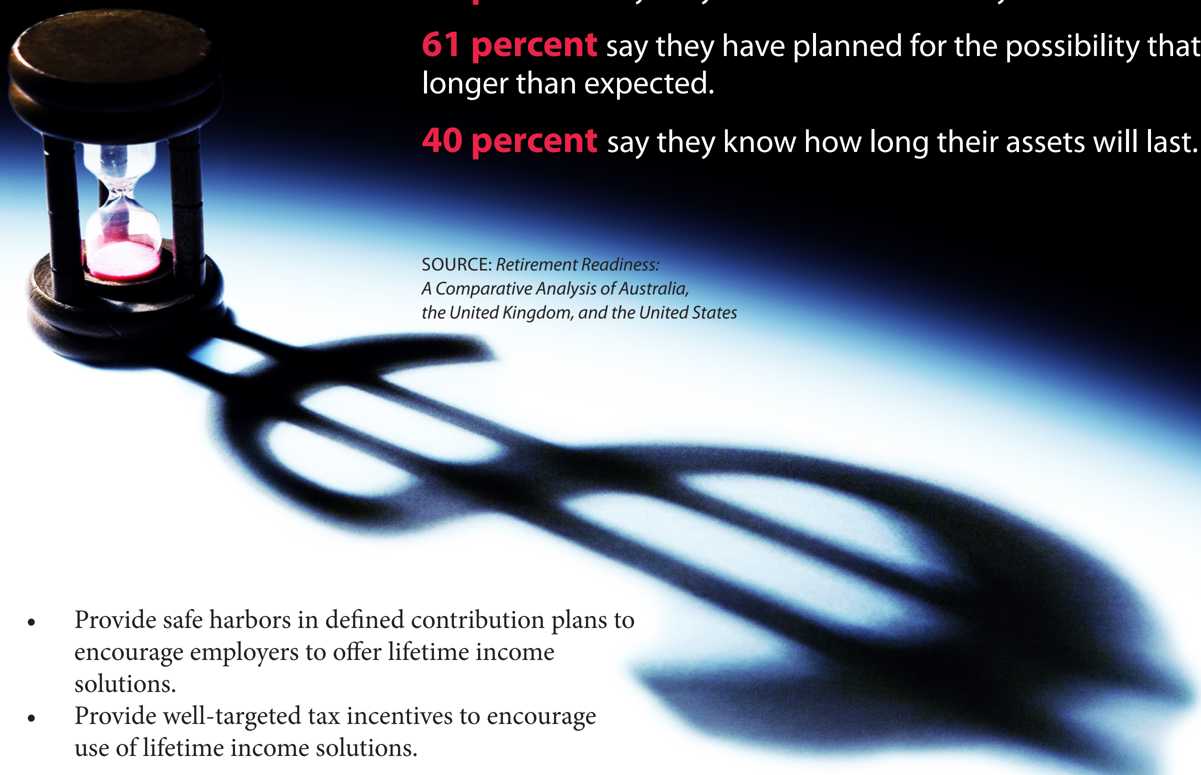
64 percent report having savings for retirement.

31 percent say they know how much they need to save.

61 percent say they have planned for the possibility that they will live longer than expected.

40 percent say they know how long their assets will last.

SOURCE: *Retirement Readiness: A Comparative Analysis of Australia, the United Kingdom, and the United States*



- Provide safe harbors in defined contribution plans to encourage employers to offer lifetime income solutions.
- Provide well-targeted tax incentives to encourage use of lifetime income solutions.

Emphasizing Financial Literacy and Education

- Improve information provided to workers to raise their understanding about how to prepare for retirement, and focus on the concept of lifetime income by expressing benefits in terms of lifetime monthly income in periodic retirement plan statements.
- Provide additional lifetime-income education and make available easy-to-adopt, lifetime-income products when people receive lump-sum distributions from a retirement plan or are faced with decisions about whether to cash out a defined benefit pension plan through a lump-sum distribution.
- Expand existing initiatives of the U.S. Department of Labor and other public entities that currently disseminate objective retirement information.

Refocusing Retirement Plan Designs

- Add design flexibility, which in some cases may require changes to federal statutes or regulations, to facilitate greater exercise of lifetime-income options, such as annuities and structured withdrawal programs. For example, allow defined contribution plan sponsors to offer lifetime-income defaults or choices to provide partial annuitization of account balances at retirement.

Conclusion

Securing income throughout retirement is important for all Americans as they plan and save for retirement and ultimately manage their accumulated funds. Steps need to be taken to facilitate these efforts to achieve secure lifetime incomes for more retirees. The sooner retirement income security issues can be brought to the forefront and addressed, the more our rapidly aging population will benefit.

Additional Resources From the American Academy of Actuaries

Lifetime Income Position Statement
actuary.org/files/publications/Statement.RetireIncome.10.17.pdf

Longevity Illustrator
longevityillustrator.org

Lifetime Income Quiz
actuary.org/lifetime-income-quiz

Retirement Readiness: A Comparative Analysis of Australia, the United Kingdom, and the United States
actuary.org/files/imce/Retirement-Readiness.pdf

Risky Business: Living Longer Without Income for Life
actuary.org/files/Risky-Business_Discussion-Paper_June_2013.pdf

Lifetime Income Initiative
actuary.org/content/lifetime-income-initiative