

Making Retirement Income Last a Lifetime: Public Policy Options and Practical Tools



AMERICAN ACADEMY *of* ACTUARIES

Objective. Independent. Effective.™

Today's Presenters

- Josh Shapiro, MAAA, FSA, EA, FCA
 - Vice President, Pension Practice Council
- Noel Abkemeier, MAAA, FSA
 - Co-Chairperson, Lifetime Income Risk Joint Task Force
- Ted Goldman, MAAA, FSA, EA, FCA
 - Senior Pension Fellow, American Academy of Actuaries



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.

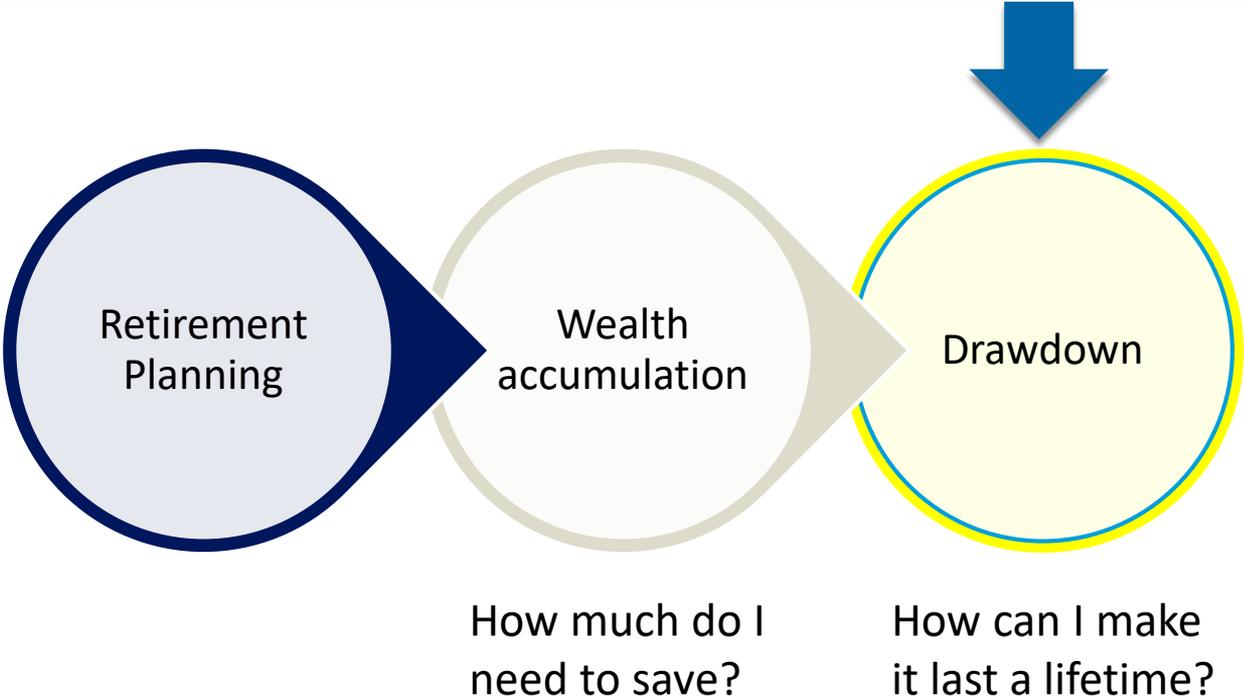


Agenda

- Lifetime Income: Challenges and Solutions
- Academy Position Statement
- Legislative Initiatives
- Academy Resources for Constituent Education
 - Lifetime Income Quiz
 - Longevity Illustrator
 - Issue briefs, analysis posted on Lifetime Income site



Lifetime Income: Today's Focus



Why making it last is important



Risk of underestimating
period of retirement – run
out of funds



Risk of overestimating
period of retirement– settle
for lower standard of living



Typical sources of retirement income

Social
Security

Employer
Plans

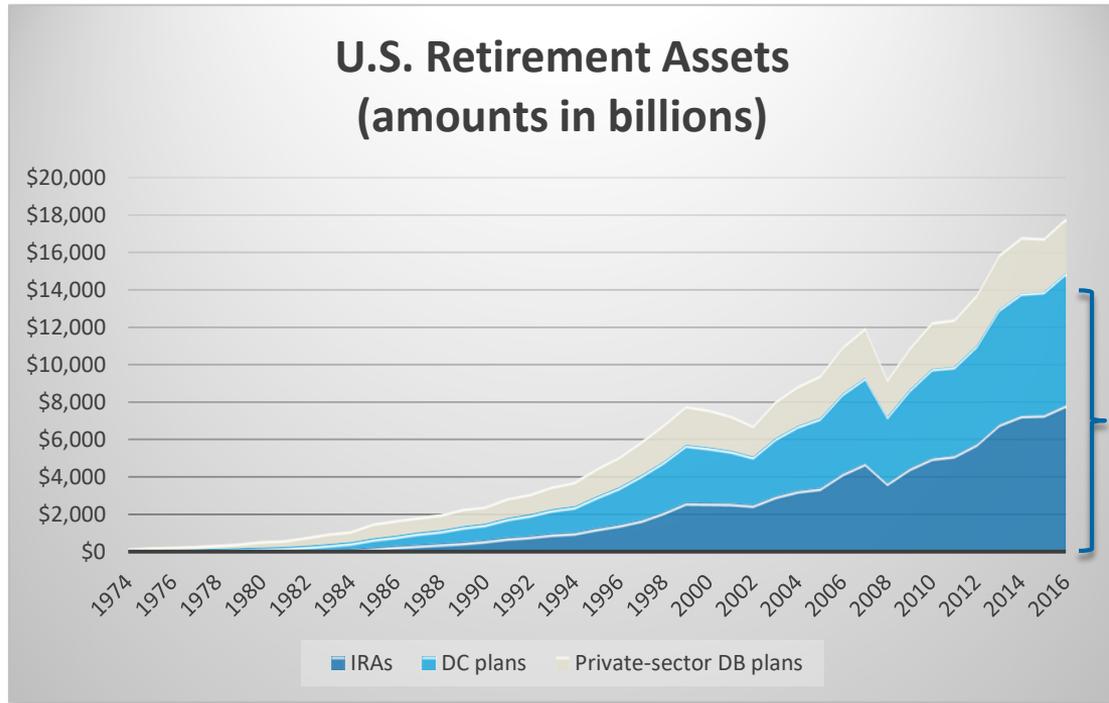
Personal
Savings



- Social Security – lifetime income, inflation-adjusted
- Employer – pension or savings
- Personal – IRA, home equity, investments, employment, insurance

Retirement Income

For many, IRA and 401(k) balances will be **the** major supplement to Social Security



Growth in
retirement
savings
accounts

Source: Investment Company Institute, U.S. Retirement Markets <https://www.ici.org/research/stats>



Why is lifetime income planning difficult?

- ❑ Lack of sufficient understanding of link between asset accumulation and the income it will produce
- ❑ Underestimation of one's potential life expectancy
- ❑ Lack of familiarity with income management tools and resources
- ❑ Inconvenience of structuring lifetime income – e.g., access and understanding of annuity and structural withdrawal options
- ❑ Establishing and staying on a budget, especially with perception of large sum of money available
- ❑ Other unknowns – future health, economy, family status



No wonder most people find this daunting...

How can you be confident it will last for your lifetime?

How long will you live?

What if you live to 100?

How much income will you need each year?

How can you protect against inflation?

What if you become ill or disabled?

When should you start Social Security?

Do you have a spouse or other dependents?

How should your savings be invested?

What if investments do not perform as expected?

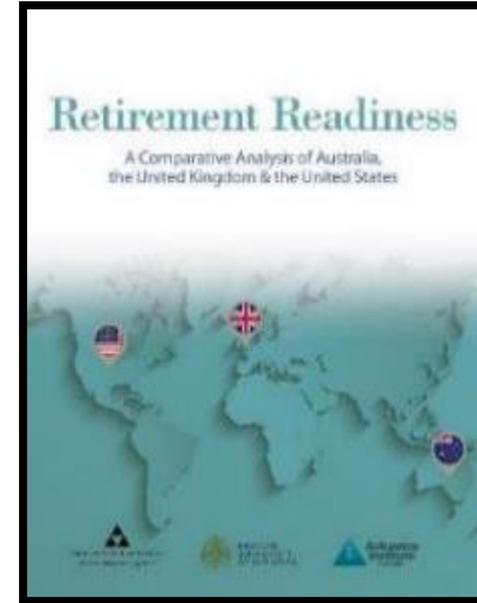


Two areas where individuals feel most challenged – how much and how long

□ Retirement Readiness Survey

<https://www.actuary.org/files/imce/Retirement-Readiness.pdf>

- ▣ Knowing how much to save: 31%
- ▣ Knowing how long assets will last: 40%



AMERICAN ACADEMY of ACTUARIES

Objective. Independent. Effective.™

© 2018 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

How can this be solved?

- Focus on the lump sum savings account balance:
 - Plan sponsors as a trusted provider of education, resources, and tools about income planning
 - Defined contribution (DC) plans, such as 401(k)s, to provide income options rather than just lump sum payouts



The Academy's Position Statement

POSITION STATEMENT

RETIREMENT INCOME OPTIONS

in Employer-Sponsored Defined Contribution Plans

THE AMERICAN ACADEMY OF ACTUARIES SUPPORTS POLICY AND EDUCATIONAL INITIATIVES THAT INCREASE THE AVAILABILITY OF RETIREMENT INCOME OPTIONS within employer-sponsored defined contribution (DC) plans. Such options, based upon actuarial principles such as longevity pooling and other risk mitigation strategies, can help retirees manage their financial security over their remaining lifetime.

Retirement public policy should encourage and enable the development of *lifetime income* solutions, tools, and education

<http://www.actuary.org/files/publications/Statement.RetireIncome.10.17.pdf>



More flexibility, lower fiduciary risk

Remove barriers

Fiduciary liability

Education constraints

Inadequate safe harbors

Initiate actions

More income options

Portability of lifetime income options

Simpler selection of insurers and offerings

Access to education

Encourage innovations (i.e., defaults and nudges)



AMERICAN ACADEMY of ACTUARIES

Objective. Independent. Effective.™

© 2018 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Key areas of focus

- Safe harbors
 - Reluctance by employers to offer lifetime income options in plans due to fiduciary risk
 - Need safe harbors that are simple and objective
- Lifetime income options
 - More flexibility, but simple and easy to select
 - Likely a combination of multiple approaches: Single Premium Annuities, Qualifying Longevity Annuity Contracts (QLACs), flexible withdrawal strategies, etc



The benefit of income options in DC plans

Longevity risk pooling and institutional pricing opportunities beyond individual markets

- Lower costs provide greater net benefits

Ease of Transaction

- No need to perform IRA rollover

Provider and product due diligence

- Minimizes poor choices in provider and product selection

Guidance on retirement income planning and longevity risk management options

- Plan-provided educational materials and tools can help individuals analyze choices

The benefit to retirees

- Increased access to sound advice from a familiar source (the employer)
- More timely introduction of options and related decision-making
- Greater availability of income options from quality providers with minimal complexity and competitively priced
 - Lifetime income payment streams (e.g., annuities) commencing with retirement or starting later in life (i.e., age 80 or 85)
 - Structured withdrawal programs
 - Coordination of payments with Social Security benefits
- Improved decision-making and confidence in choices



It's a Bipartisan Issue: Proposed legislation addressing lifetime income

- Retirement Enhancement and Savings Act of 2018 (S. 2526 and H.R. 5282)
 - Portability of lifetime income options
 - Annual disclosure of savings balance as lifetime income amount
 - Fiduciary safe harbor for selection of lifetime income provider
- Lifetime Income Disclosure Act (S. 868 and H.R. 2055)
 - Annual participant statement of lifetime income value of DC plan balance
- The Retirement Plan Simplification and Enhancement Act of 2017 (H.R. 4524)
 - Availability of distribution options
 - In-plan lifetime income options portability
 - Qualifying Longevity Annuity Contract reforms
 - Removes some Required Minimum Distribution (RMD) barriers for life annuities
 - Exceptions from RMD rules for smaller savings balances
- Increasing Access to a Secure Retirement Act of 2017 (H.R. 4604)
 - Provide fiduciary safe harbor for selection of lifetime income provider



AMERICAN ACADEMY of ACTUARIES

Objective. Independent. Effective.™

© 2018 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Moving forward

- Consider proposed legislation
- Identify remaining gaps and consider incentives to encourage and enable stakeholders
- Educate the general public – your constituents!



Progress will come from multiple efforts



Constituent education

- Lifetime Income Quiz
 - ▣ www.actuary.org/lifetime-income-quiz
- Actuaries Longevity Illustrator
 - ▣ www.longevityillustrator.org
- Essential Elements: Income to Last a Lifetime
 - ▣ <http://actuary.org/lifetime-income-essential-elements.pdf>
- Academy lifetime income webpage
 - ▣ www.actuary.org/content/lifetime-income-initiative



An online quiz you can use to help your constituents

11 QUESTIONS

Test your knowledge about retirement income choices

Planning for retirement includes two stages: first, accumulating adequate savings, and, second, making sure that these savings provide an income that will last a lifetime. Take this quiz to test your knowledge on how to create a sound lifetime income strategy. The questions can provide some insight into issues in planning for retirement income, a better understanding of some key concepts, and choices that you may face in deciding how to convert your savings into lifetime retirement income.

[START](#)



AMERICAN ACADEMY of ACTUARIES

Objective. Independent. Effective.™

[SHARE](#)

[TWEET](#)



Sample question

Of the following, what is the best way to provide for a lifetime income?



- Purchase a lifetime income annuity
- Take planned withdrawals from retirement savings each year in an amount that has a high probability of lasting for a period that reaches several years beyond your life expectancy.
- Withdraw only investment income.
- It depends

Eleven multiple choice questions



Sample answer

CORRECT CLICK ANYWHERE TO ADVANCE

Correct answer: It depends

The best approach depends upon each retiree's situation. The solution will vary based upon the amount of income from Social Security and a pension, the amount of retirement savings and other resources, investment risk tolerance, the health of the retiree, and other considerations, such as the importance of leaving an inheritance. A lifetime income annuity could start immediately or at a later age, up to 85 (known as a Qualifying Longevity Annuity Contract (QLAC) if purchased with funds from an IRA or a 401(k) plan). Note that the planned withdrawal approach may not last a lifetime and the investment income withdrawals may provide irregular or inadequate income. The best approach very well may be a combination of the various approaches.

NEXT QUESTION

With a short explanation of the correct response as well as a link to a more comprehensive response



The Actuaries Longevity Illustrator



Simple online tool available to the public to:

- ❑ Address life expectancy misconceptions
- ❑ Incorporate simple underwriting criteria
- ❑ Emphasize importance of planning for couples



Example – Retiree and Spouse both age 65, non-smokers, average health

Enter Your Information

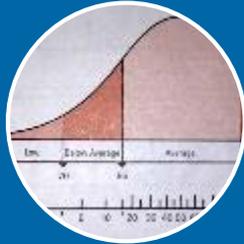
In the chart below, under "Person 1," enter your name and date of birth. If you want the illustrations to start later than your current age, enter that age; otherwise leave that blank and the illustrations will start at your nearest current age. Also enter your gender, whether you smoke and your general state of health. For your spouse/partner enter the same information (except for the age at which the calculations are to start) in the "Person 2" column. The age for your spouse/partner is set to his or her nearest age at the time the illustrations will start. If you are single or do not wish to use the joint-life features in the program, leave the "Person 2" entries blank.

You can always come back to this page to see how a change in what you enter affects the subsequent answers. In fact, you might find it very informative to see how the results change when you enter different ages and/or health statuses.

	Person 1	Person 2	
First Name	<input type="text" value="Joe"/>	<input type="text" value="Sue"/>	<p>What should I enter for "Age for Illustration to Start"?</p>
Date of Birth	<input type="text" value="06/05/1953"/>	<input type="text" value="06/05/1953"/>	<p>How do I answer the smoking question if I have previously smoked, but quit?</p>
Age for Illustration to Start	<input type="text" value="65"/>		<p>What do you mean by "general health"?</p>
Gender	<input type="text" value="Male"/>	<input type="text" value="Female"/>	<p>Why does the tool only ask about age, gender, smoking, and health? What about other factors that affect longevity?</p>
Do you smoke?	<input type="radio"/> Yes <input checked="" type="radio"/> No	<input type="radio"/> Yes <input checked="" type="radio"/> No	
General Health	<input type="text" value="Average"/>	<input type="text" value="Average"/>	
	<input type="button" value="View Results"/>		



Valuable graphic outcomes – three perspectives



Probability of living to a certain age – longevity as a range



Planning horizon – arranged in the order of chance of survival and shows single and joint lifetime information

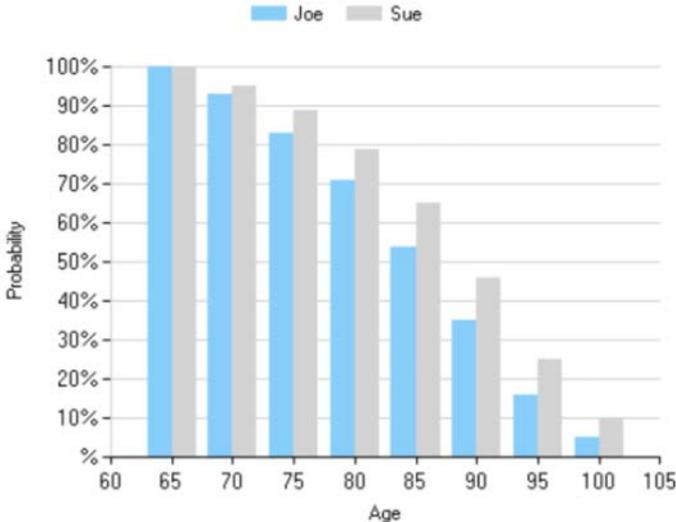


Probability of living for a specified number of years – charts the probability of surviving in terms of years for single and joint lifetimes



Probability of living to a certain age

Graph



Chart

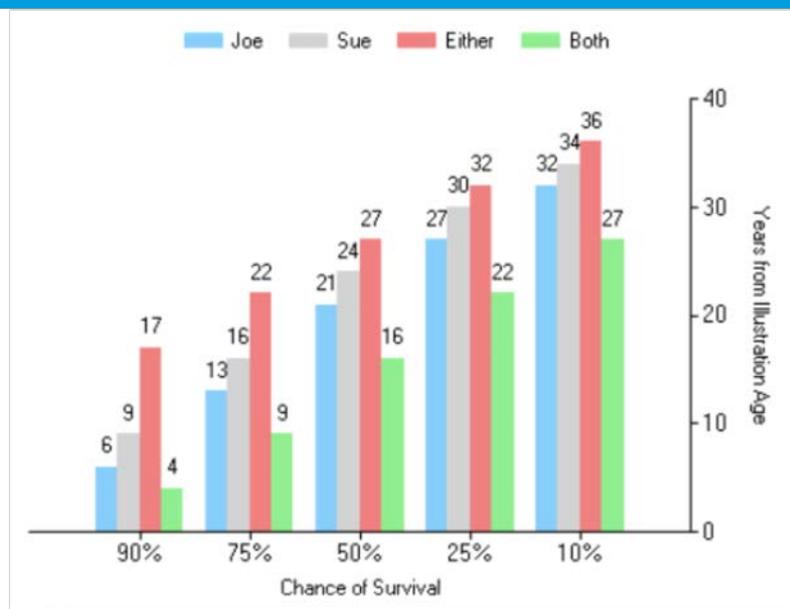
Age	Joe	Sue
65	100%	100%
70	93%	95%
75	83%	89%
80	71%	79%
85	54%	65%
90	35%	46%
95	16%	25%
100	5%	10%



Planning horizon

29

Graph



Chart

Probability	Joe	Sue	Either	Both
90%	6	9	17	4
75%	13	16	22	9
50%	21	24	27	16
25%	27	30	32	22
10%	32	34	36	27

Years of survival

29



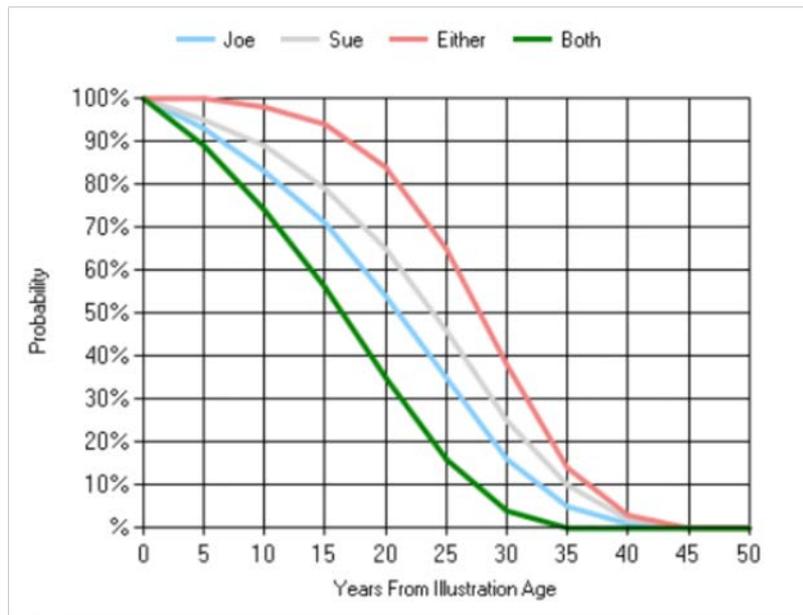
AMERICAN ACADEMY of ACTUARIES

Objective. Independent. Effective.™

© 2018 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Probability of living a specified number of years

Graph



Chart

Years	Joe	Sue	Either	Both
0	100%	100%	100%	100%
5	93%	95%	100%	89%
10	83%	89%	98%	74%
15	71%	79%	94%	56%
20	54%	65%	84%	35%
25	35%	46%	65%	16%
30	16%	25%	38%	4%
35	5%	10%	14%	0%
40	1%	2%	3%	0%
45	0%	0%	0%	0%
50	0%	0%	0%	0%



AMERICAN ACADEMY of ACTUARIES

Objective. Independent. Effective.™

© 2018 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Illustrating sensitivities

31

Age	Gender	Smoking Status	Health	Age at Given Chance of Survival		
				75%	50%	25%
65	M	No	Average	78	86	92
65	F	No	Average	81	89	95
65	M	Yes	Poor	71	77	83
65	M	No	Poor	76	84	90
35	M	No	Average	81	88	95
65	F	No	Excellent	83	90	96
35	F	No	Excellent	86	93	99

31

In the news...

32

TIME

Money

Here's How to Make Sure You Have a Worry-Free Retirement



Super Stock—Getty Images

By WALTER UPDEGRAVE November 29, 2017

"As with expenses, you can't determine exactly how long you'll live. But if you go to the Actuaries Longevity Illustrator and enter your age and gender and select your health status (poor, average or excellent), the tool will estimate your chances of living to various ages. Based on that information—and going through the process again every few years in retirement or whenever you experience a significant change in health—you'll be able to make a more informed judgment of how many years you may have to count on your savings to support you."



If you're expecting a long life, take time to adjust your financial plan

- "About one out of every four 65-year-olds today will live past age 90, and one out of 10 will live past age 95," according to the Social Security Administration.
- 43 percent of retirees underestimate by at least five years, the life expectancy for someone of their age and gender, the Society of Actuaries reports.
- Planning for longevity might include working longer, adjusting investment strategies, and planning for incapacitating health problems.

Kelli B. Grant | @kelligrant

Published 9:01 AM ET Sat, 13 Jan 2018 | Updated 11:45 AM ET Tue, 16 Jan 2018

"For a quick gut check, there are plenty of longevity calculators like the Actuaries Longevity Illustrator (from the SOA and the American Academy of Actuaries) and Living to 100, that aim to gauge the likelihood of you reaching certain ages and provide financial and health recommendations. Those can provide a launching point for further conversations with your doctors and financial advisor."

Forbes

APR 27, 2017 @ 08:00 AM 1,058

How Likely Are You To Live Past 80?



Wade Pfau, CONTRIBUTOR

Professor @ The American College, Principal @ McLean Asset Management [FULL BIO](#)

Opinions expressed by Forbes Contributors are their own.

"The American Academy of Actuaries and the Society of Actuaries created the Longevity Illustrator to help users develop personalized estimates for their longevity based on a few questions about age, gender, and health. Exhibit 1 provides these numbers for sixty-five-year-old males and females based on their health assessment and smoking status."



AMERICAN ACADEMY of ACTUARIES

Objective. Independent. Effective.™

© 2018 American Academy of Actuaries. All rights reserved.

May not be reproduced without express permission.

Additional resources

- Academy webpage offers a wealth of material



<http://www.actuary.org/content/lifetime-income-initiative>

Why this is important

- Clear public interest to enhance retirement security for fast-growing, longer-living retiree population
- May have important implications due to an additional strain on social safety net programs



Questions?

For more information contact:
Monica Konaté, Pension Policy Analyst

Konate@actuary.org

202-223-8196

