

# Increasing Longevity: Impact on Pension Plan Sponsors and Participants

NCOIL Spring Meeting  
March 7, 2014

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American Academy of Actuaries



# American Academy of Actuaries

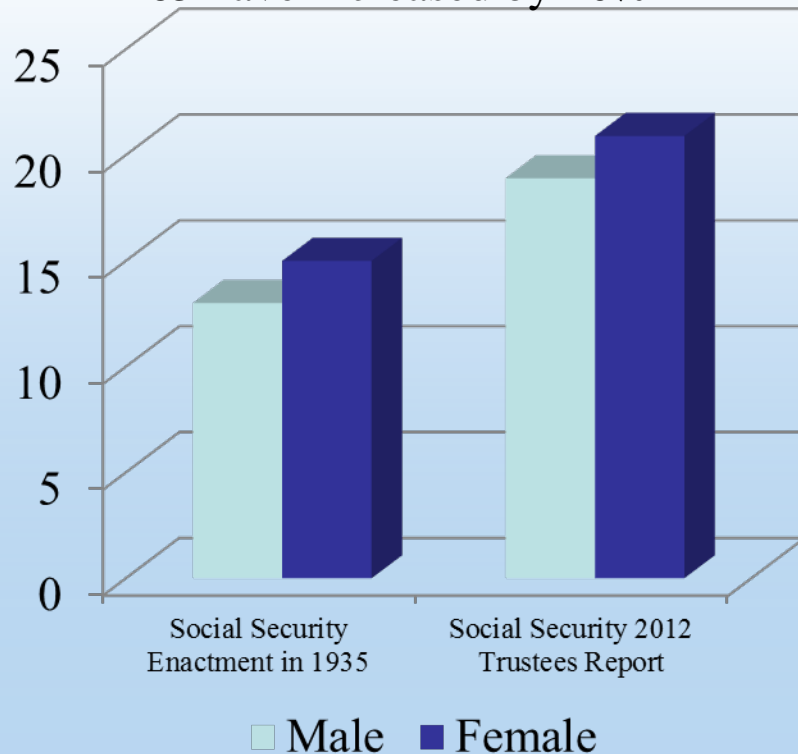
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# We know people are living longer

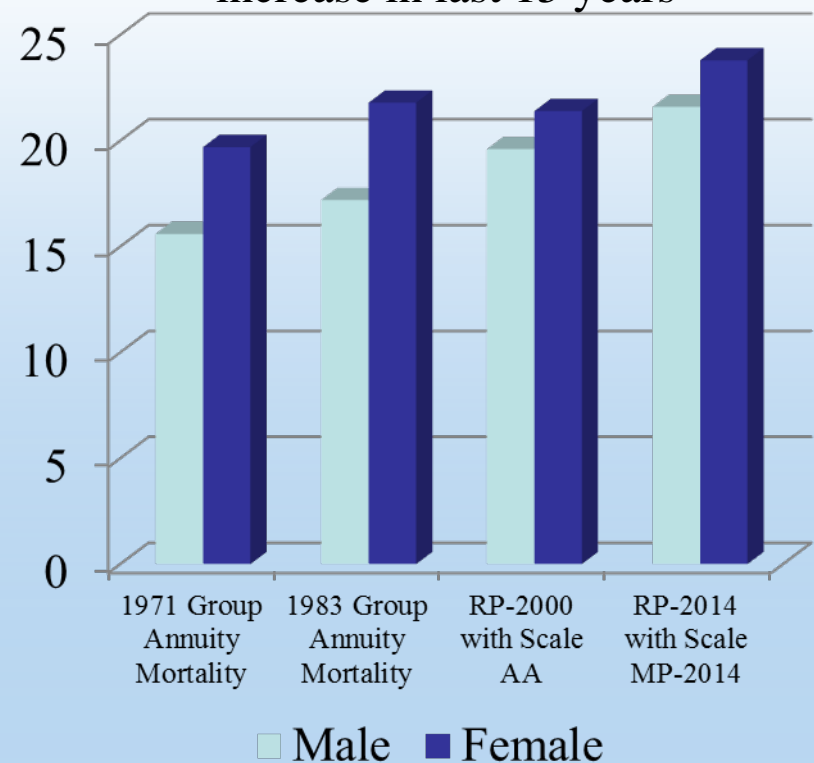
## Social Security Data

Life expectancies at age 65 have increased by 40%



## DB Plan Covered Employees

Recent SOA study shows 10% increase in last 15 years

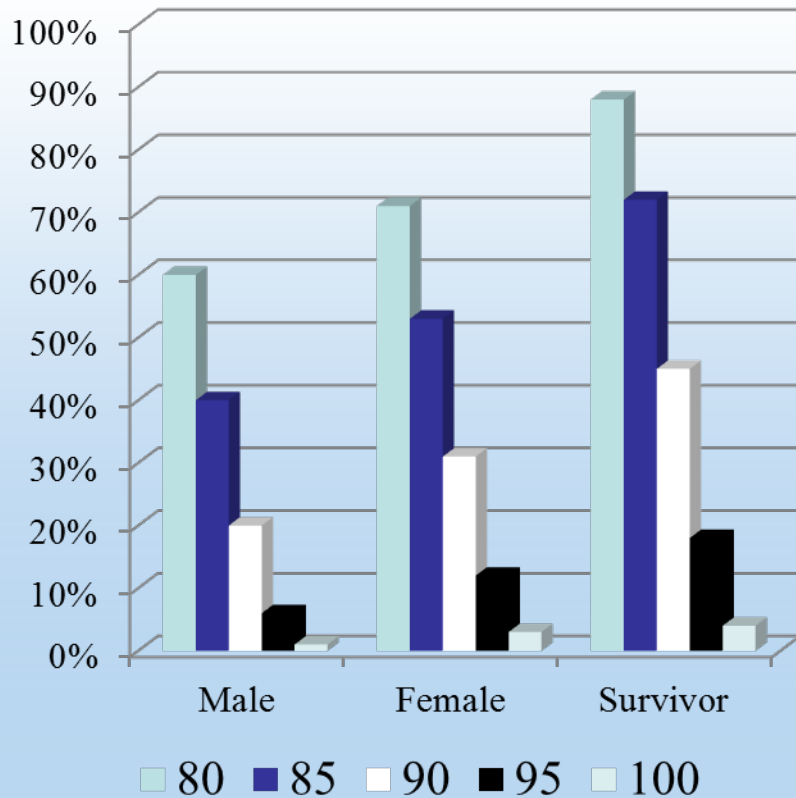


Longevity increases can add significant cost for retirement benefits

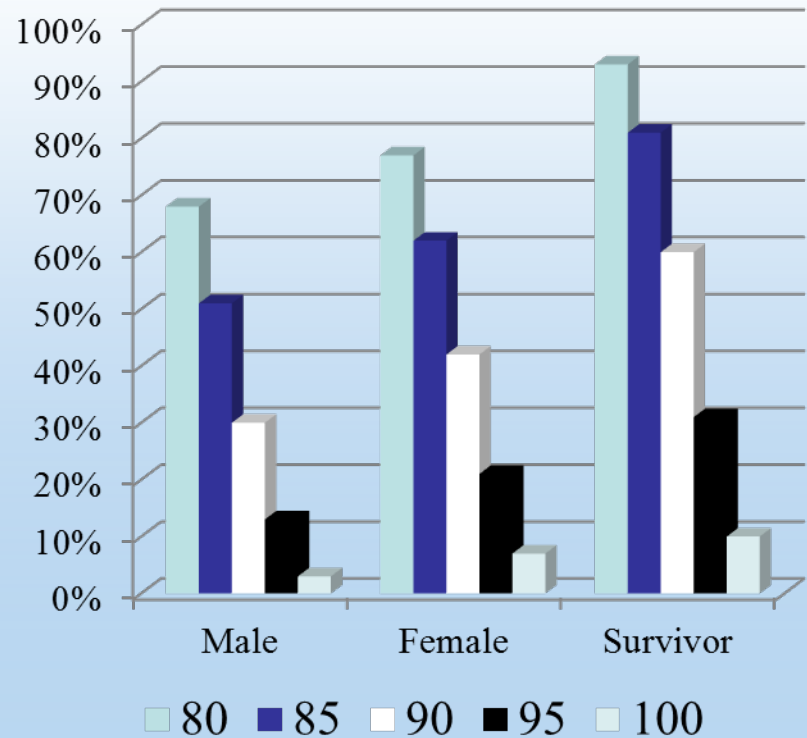


# Life expectancy can be misleading

## Social Security Mortality



## 75% Social Security Mortality

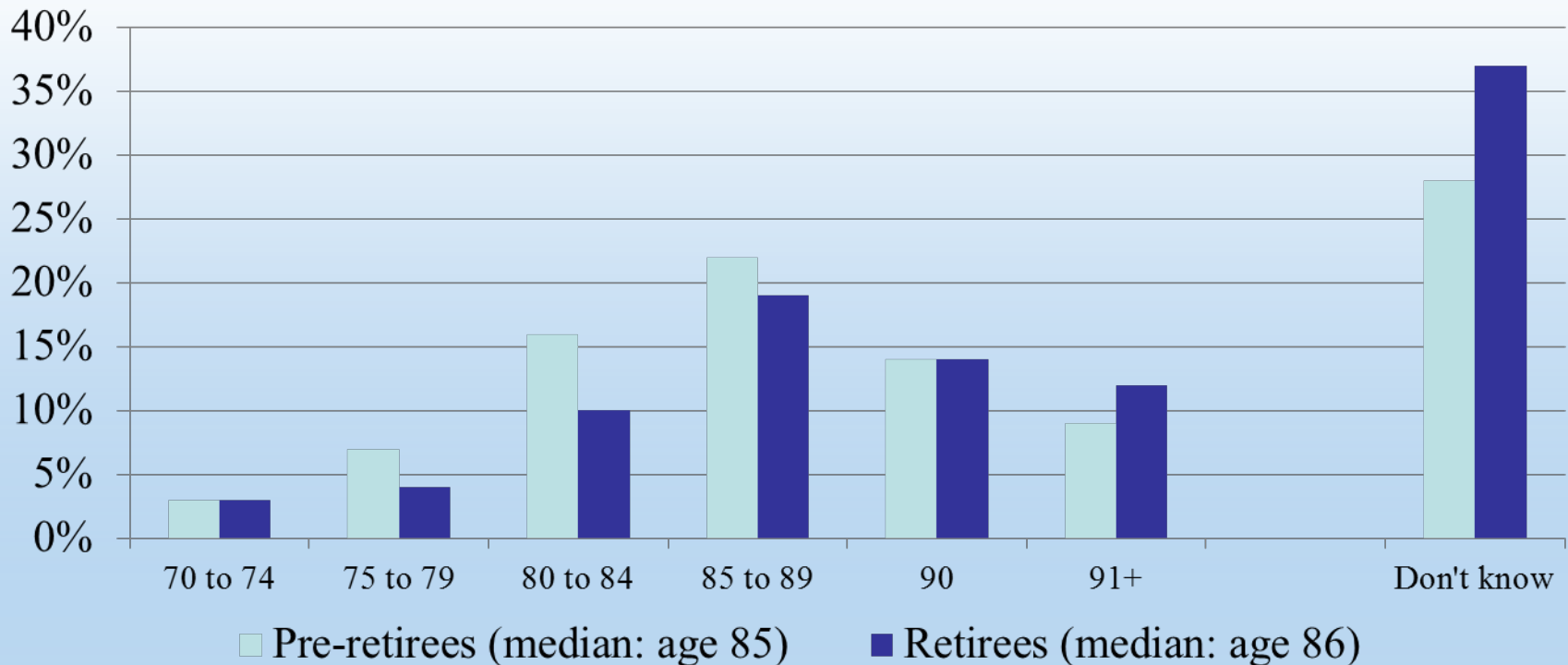


Source: Analysis of 2007 period life table for the Social Security area population



# Retirees are uncertain of the impact on their retirement planning

*Knowing how long you can expect to live can be important for retirement planning. Until what age do you think that you can expect to live?*



Source: 2013 Risks and Process of Retirement Survey, Society of Actuaries' Committee on Postretirement Needs and Risks



# Retirees are challenged to plan for adequate lifetime income

- The problem with life expectancy
  - Life expectancy is not how long someone will live
  - Individual's lifespan is unpredictable
  - Retirees and pre-retirees underestimate how long they may live
- For married couples, retirement income planning must take into account both lifetimes



# Impact on pension plan sponsors

- Actuarial calculations reflecting longer life expectancies produce higher liability funding targets
  - Resulting increases in cash contributions, pension expense and balance sheet liabilities
- Impact is compounded by other influences
  - Low interest rates
  - Increased time and expense to comply with regulatory requirements
  - Increased PBGC premiums



# How are plan sponsors reacting?

- Increased risk sharing and transfer
  - Shift from defined benefit to defined contribution approach
  - Offering lump sum distribution options
    - To decrease employer risk
    - To reduce PBGC premium expense
  - Transfer of pension obligations to insurers
    - Buy-out transactions
    - Buy-in transactions





# The importance of annuities (access and affordability)

- Many retirees find themselves unprepared or lacking the skills needed to manage retirement assets for 25+ years, taking into account:
  - Increasing longevity (retiree and spouse)
  - Inflation
  - Healthcare and long-term care costs
  - Reduced faculties with age
- Having access to insured annuity products at a reasonable cost is an important alternative to lump sum payouts to retirees



# What can be done to help individuals?

- Financial education
  - Understanding life expectancy and longevity risk
  - Importance of having sufficient guaranteed lifetime income
  - Retirement plan distribution options to address longevity and inflation risk
  - Self-management programs for retirement assets
  - Understanding of annuity insurance products
    - Fair price
    - How to shop for one
    - Degree of state guarantees
- Encourage in-plan and plan-distribution lifetime income options



# Additional Academy Resources

## Lifetime Income Initiative Webpage:

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

## Select Publications

- Pension Committee comments on proposed lifetime income benefit statements (August 7, 2013)

[http://www.actuary.org/files/PC\\_Comments\\_DOL\\_lifetime-income-statements-ANPR\\_Aug-7-2013.pdf](http://www.actuary.org/files/PC_Comments_DOL_lifetime-income-statements-ANPR_Aug-7-2013.pdf)

- *Risky Business: Living Longer Without Income for Life* a discussion paper by the Lifetime Income Risk Joint Task Force (June 19, 2013)

[http://www.actuary.org/files/Risky-Business\\_Discussion-Paper\\_June\\_2013.pdf](http://www.actuary.org/files/Risky-Business_Discussion-Paper_June_2013.pdf)

- Congressional Testimony on Longevity Risk: Pension Practice Council testimony to 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](http://www.actuary.org/files/AAA_for_6-16-10_Senate_Aging.4.pdf/AAA_for_6-16-10_Senate_Aging.4.pdf)



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