

# Risky Business: Living Longer Without Income for Life



**ERISA Retirement Income Working Group**  
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AMERICAN ACADEMY  
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# Today's Discussion

- Introduce the Academy's Lifetime Income Initiative
- Discuss Lifetime Income Risk and Possible Consequences
- Discuss Possible Solutions to the Problem of Lifetime Income Risk
- Summarize Academy comments on the DOL's Proposed Rule to add lifetime income values to retirement statements



# 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



# 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 your own, depletion of assets, lack of a lifetime income, etc.
- Lifetime income risk, the risk of outliving your assets, is one specific longevity risk
- Lifetime income should be structured to cover basic needs





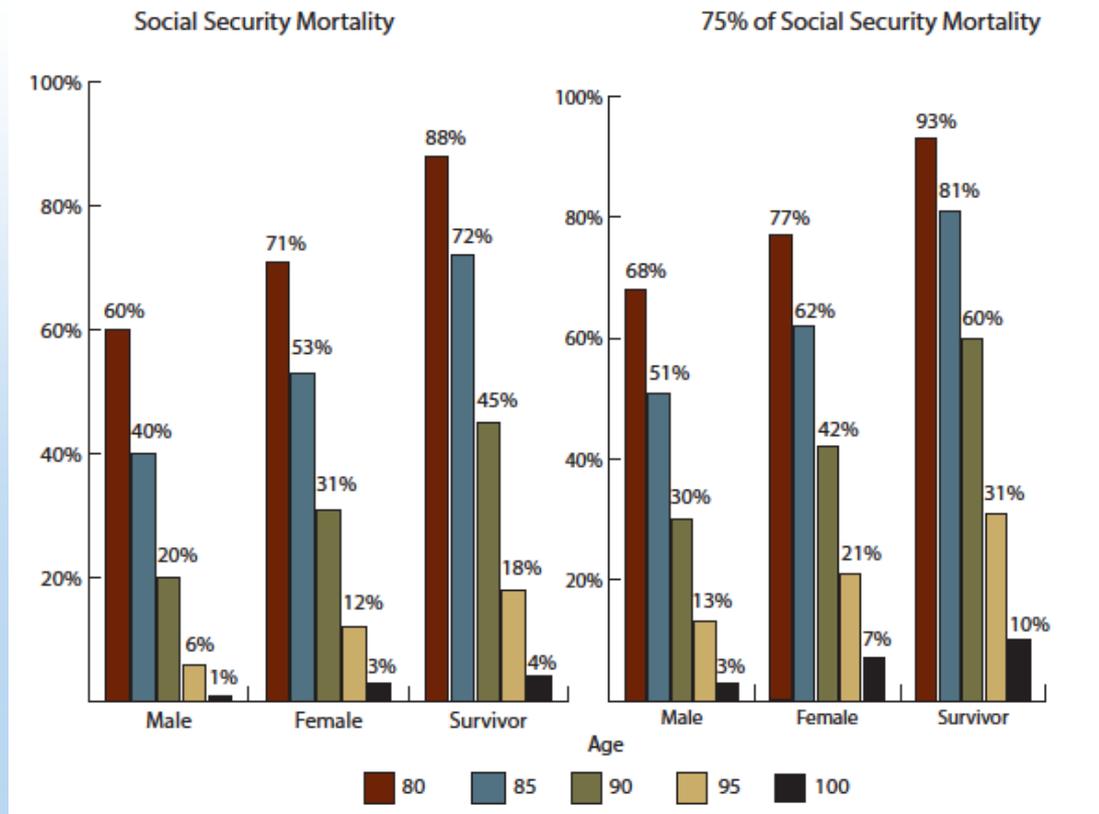
# Why is Lifetime Income Risk an Issue?

- 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

Probability of Living from Age 65 to Various Ages



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



# Lifetime Income Challenges

## ■ Education

- Poor understanding of lifetime income risk
- Being unaware of lifetime income sources, products, and strategies
- Plan sponsor reluctance to educate and communicate on the issue



# Lifetime Income Challenges

- Retirement Plan Structure
  - Few lifetime income accumulation options in defined contribution (DC) plans, such as 401(k) plans
  - Insufficient bridges from account balances to lifetime income when taking a DC plan distribution
  - Easy to convert defined benefits into lump sums
  - Reluctance of plan sponsors to change approach in plan design due to perceived fiduciary risk



# Lifetime Income Challenges

- Retiree Perceptions
  - Retirees lack full confidence that pension plans or insurers will be able to meet long-term commitments
  - Little incentive to choose lifetime income over lump sum
- Public policy constrains some lifetime income sources
  - Required Minimum Distributions (RMDs) are required at age 70½ , long before the commencement of longevity risk
  - Maximum Social Security deferral limitation to age 70 constrains a longevity risk solution



# Addressing Lifetime Income Risk

## ■ Education

- The employer workplace is probably the logical venue to deliver education
- Encourage employers to assume responsibility for educating employees throughout their career on this topic by providing fiduciary relief (safe harbor) for “approved” programs
- Express DC plan balances in terms of lifetime income



# Addressing Lifetime Income Risk

- Retirement Plan Structure
  - Require all qualified retirement plans to offer a lifetime income distribution option (possibly the default payout) and accompany with clear and broad fiduciary safe harbor provisions
  - Clarify the safe harbor for providing lifetime income approaches as accumulation options
  - Require lifetime income education at the time of a retirement plan distribution



# Addressing Lifetime Income Risk

- Retiree Perceptions
  - Continue with initiatives to strengthen the Pension Benefit Guaranty Corporation (PBGC) ability to support guarantees
  - Initiate actions that could reduce concerns by consumers that insurers will not make good on annuity promises
  - Add urgency to strengthening Social Security's long-term funding issues
  - Look at well targeted tax incentives to encourage use of lifetime income distribution



# Addressing Lifetime Income Risk

- Public Policy Constraints
  - Change RMD requirement to an age above 70½
  - Modify Social Security to provide post age 70 increases



# Department of Labor's Proposal on Lifetime Income Disclosure

- Requires disclosure of lifetime income amounts on participant statements of defined contribution plans
- Requires participant's accrued benefits to be expressed as an estimated lifetime stream of payments, in addition to being presented as an account balance
- Requires participant's accrued benefits to be projected to his retirement date, converted/expressed as an estimated lifetime stream of payments
- In May 8, 2013 letter, the Academy's Pension Committee commended the DOL for developing the proposed regulations and exploring ways to help workers understand the value of lifetime income in a secure retirement, and also provided technical recommendations for implementing the rule



# 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



# 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](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](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](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](http://www.actuary.org/files/PC_Comments_DOL_lifetime-income-statements-ANPR_Aug-7-2013.pdf)



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