



AMERICAN ACADEMY
of ACTUARIES

NEWS RELEASE

Immediate Release

Contact: Andrew Simonelli
Phone: 202.785.7872
Email: simonelli@actuary.org

Actuaries to Departments of Labor and Treasury: Annuities Are an Efficient Way to Insure Retirement

WASHINGTON – 14 May 2010 – The American Academy of Actuaries believes that longevity risk—the risk of living longer than one had financially planned for and thus outliving one’s retirement savings—is a real and serious threat to a stable and financially secure retirement. Longevity risk can be managed efficiently, however, through various risk pooling approaches, the actuaries wrote to the departments of Labor and the Treasury.

“It is significantly more cost efficient for a person to insure against longevity risk through a risk pooling arrangement, such as an annuity, than it is to self-insure that risk by attempting to manage a lump sum,” said **Frank Todisco**, the American Academy of Actuaries’ senior pension fellow. “An individual on his or her own typically would require about 50 percent or more additional funds to achieve the same level of financial security during retirement.”

In response to the departments’ request for information, the American Academy of Actuaries life and pension practice councils wrote that converting a portion of retirement assets into an annuity—a guaranteed lifetime income stream—can achieve cost efficiency by pooling longevity risk, fully using both investment earnings and principal, and removing the need for a cushion to safeguard against investment losses. The actuaries recommended that defined contribution plans be required to offer a guaranteed lifetime income option, provided that appropriate accompanying regulations are devised to facilitate implementation and protect plan sponsors from undue risk.

The actuaries also stressed that more retirement financial education is necessary to inform consumers about longevity risk and ways to mitigate it. In addition, policymakers should consider the lessons of behavioral finance when formulating policy changes to increase the use of lifetime income options.

The actuaries’ complete response to the departments of Labor and Treasury inquiry is available at: http://actuary.org/pdf/pension/aaa_rfi_050410.pdf.

(more)

2-2-2 – LONGEVITY RISK

For more information or to schedule an interview with Frank Todisco, please contact Andrew Simonelli, assistant director of communications for the American Academy of Actuaries, at 202.785.7872. For more information on the American Academy of Actuaries, please visit: www.actuary.org.

###

The American Academy of Actuaries is a 16,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists 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.