

Increasing Longevity: Impact on Pension Plan Sponsors and Participants

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Ellen L. Kleinstuber, FSA, FCA, EA, MAAA, MSPA

Vice-Chairperson, Pension Committee

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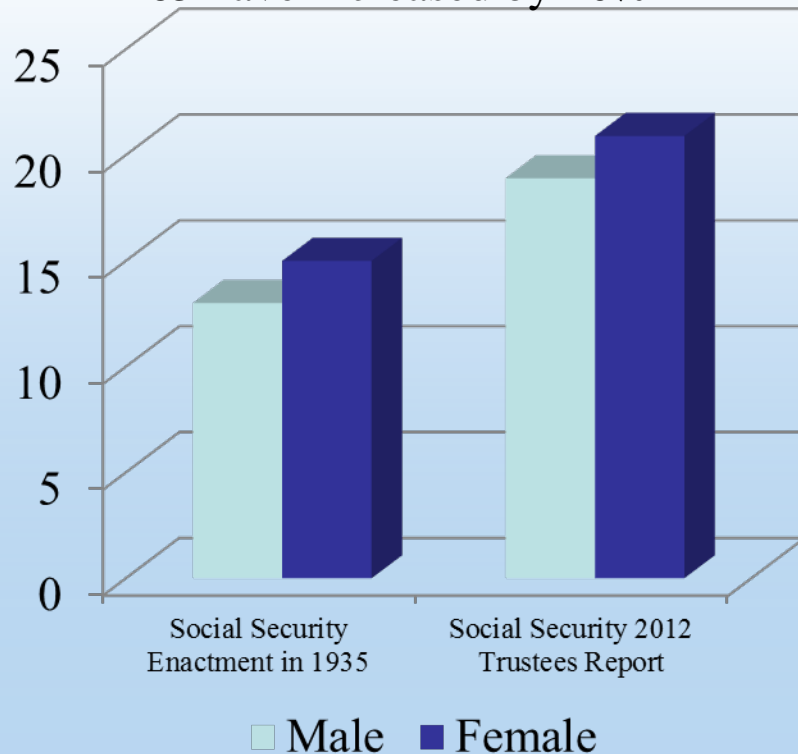
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We know people are living longer

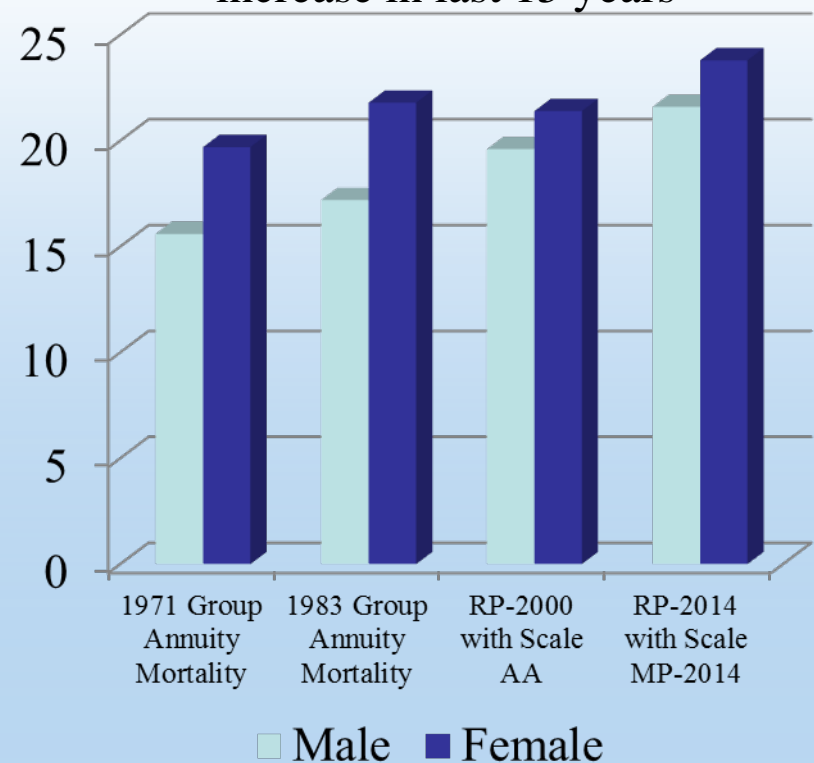
Social Security Data

Life expectancies at age 65 have increased by 40%



DB Plan Covered Employees

Recent SOA study shows 10% increase in last 15 years

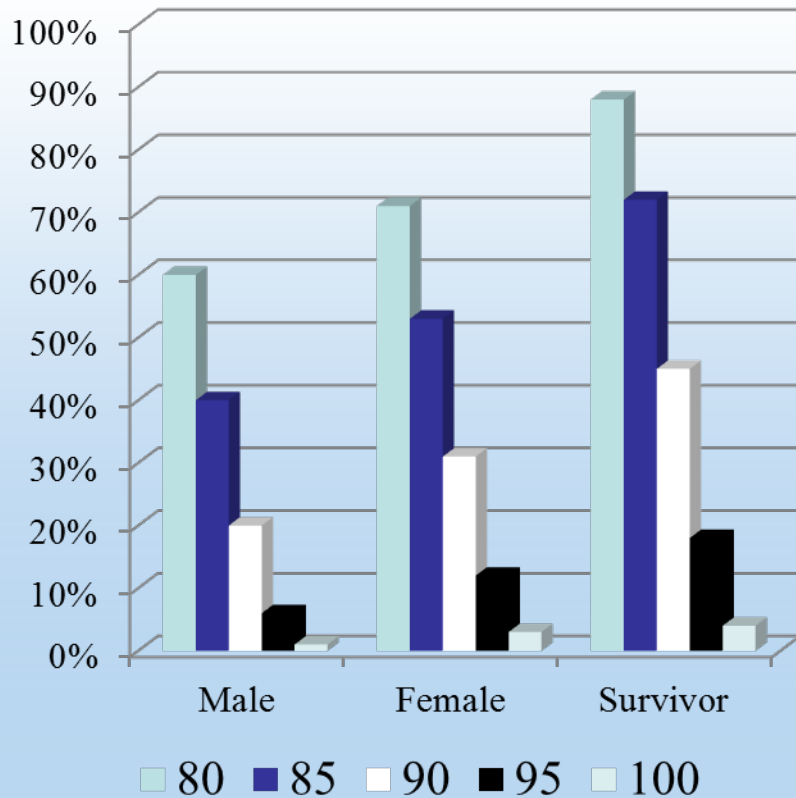


Longevity increases can add significant cost for retirement benefits

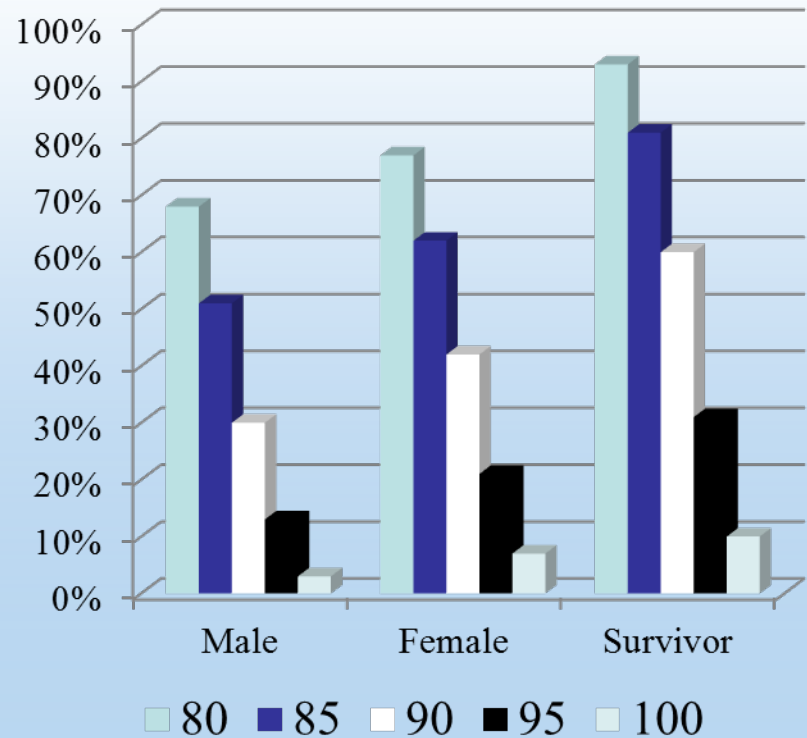


Life expectancy can be misleading

Social Security Mortality



75% Social Security Mortality

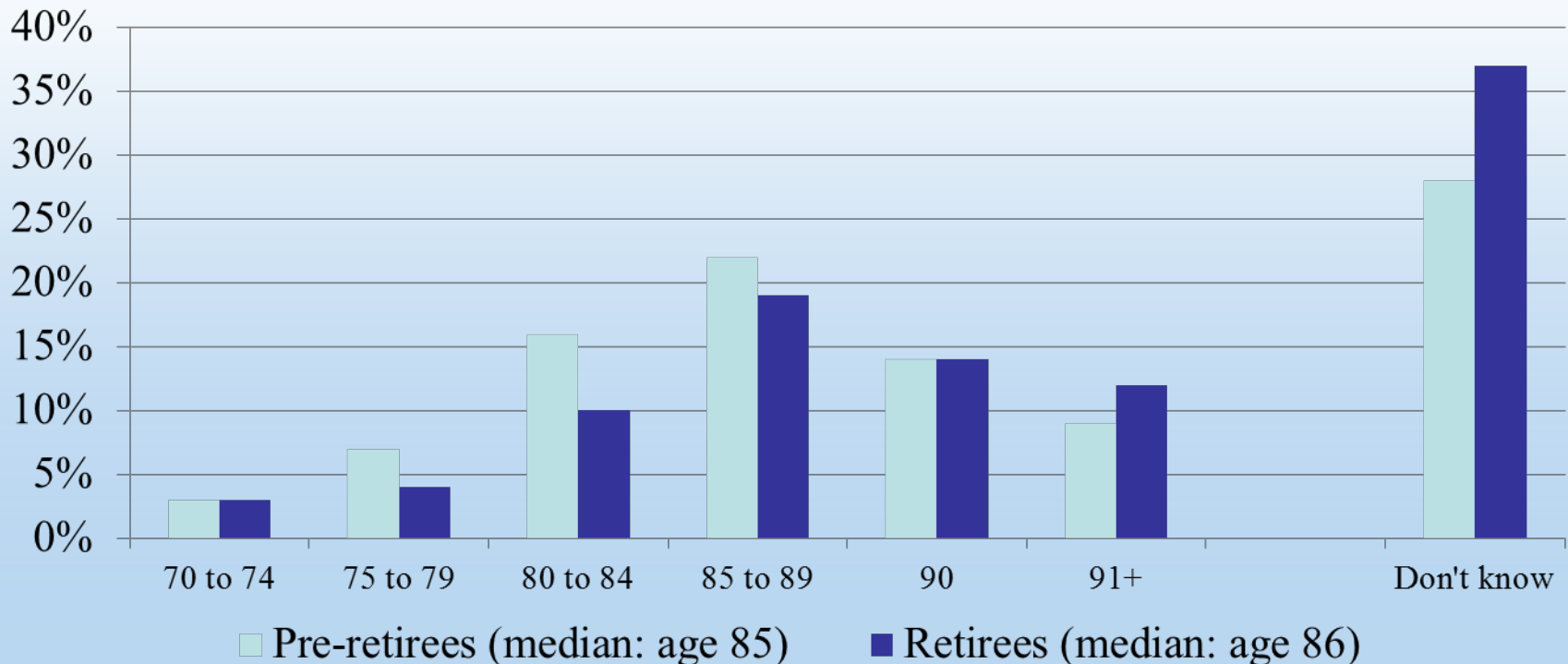


Source: Analysis of 2007 period life table for the Social Security area population



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

- *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

- 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



Contact Information

David Goldfarb, Pension Policy Analyst

goldfarb@actuary.org

202-223-8196

