Lifetime Income Solutions as a Qualified Default Investment Alternative (QDIA) – Focus on Decumulation and Rollovers

Presentation by Ted Goldman, Senior Pension Fellow, American Academy of Actuaries to the ERISA Advisory Council, US Department of Labor

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August 15, 2018

The American Academy of Actuaries

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.

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Lifetime Income Risk Joint Task Force

- Formed to address the risks and related issues of inadequate guaranteed lifetime income among retirees
- Joint effort of two practice areas:
  - Pension
  - Life

Agenda

- Context
- Academy's Position Statement on lifetime income in defined contribution (DC plans)
- Perspectives on Qualifying Longevity Annuity Contracts (QLACs)
- Open retiree multiple employer plans (Open Retiree MEPs)
- Additional Academy resources

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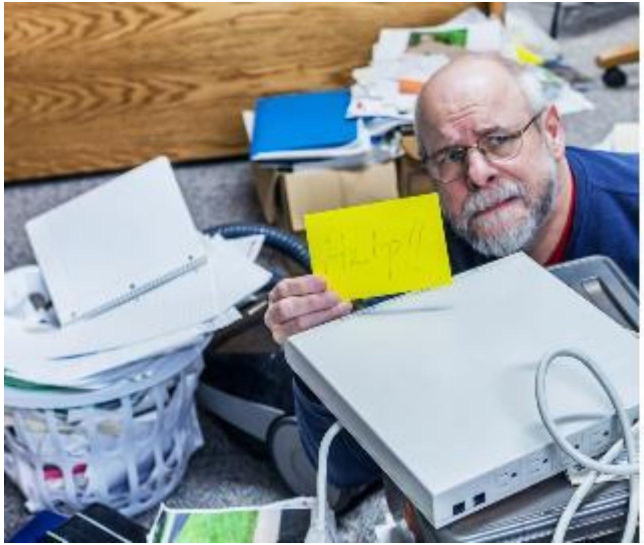
Context

Car parts

Retirement parts



The Academy's Position Statement

- 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.
- These options, based upon actuarial principles, can help retirees manage their financial security over their remaining lifetime.

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

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The cost of the shift

Past: Defined Benefit (DB) plans a key component of employer-provided retirement benefits

- Paid for and fully managed by employer
- Benefits provided as guaranteed lifetime income
- Pooling longevity risk → efficiency into lifetime income for employees

Current: Shift to DC plans as primary/only source of employer-provided retirement benefit

- Benefits typically paid in the form of a lump sum
- Individuals manage their own lifetime income, investment, and longevity risks
- Loss of efficiency and institutional management → lower retirement income

Key components for income options

- Education throughout the participant's working career
- Income options that meet retiree needs
- Enabling policies such as safe harbors

The benefits of income options in DC plans

Pricing efficiency

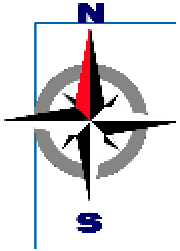
- Longevity risk pooling and institutional pricing

Ease of Transaction

- No need to perform Individual Retirement Arrangement (IRA) rollover to add annuity

Provider and product due diligence

- Minimizes poor choices in provider and product selection



Guidance

- Access to advisors for retirement income planning and longevity risk management options

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QLACs

Advantages

- Manages “tail” risk
- Allows more aggressive investment strategies
- Lower premium vs immediate annuity
- Priced to reflect retiree’s circumstances
- Can have greatest value for certain individuals

Deterrents to Usage

- Regulatory/legislative restrictions
- Insurance companies see low demand; minimal marketing and consumer education
- Advisers -- generally low utilization of annuities
- Individuals see possible loss of premium
- Plan sponsors concerns (administrative complexities, low demand, portability, fiduciary risks)

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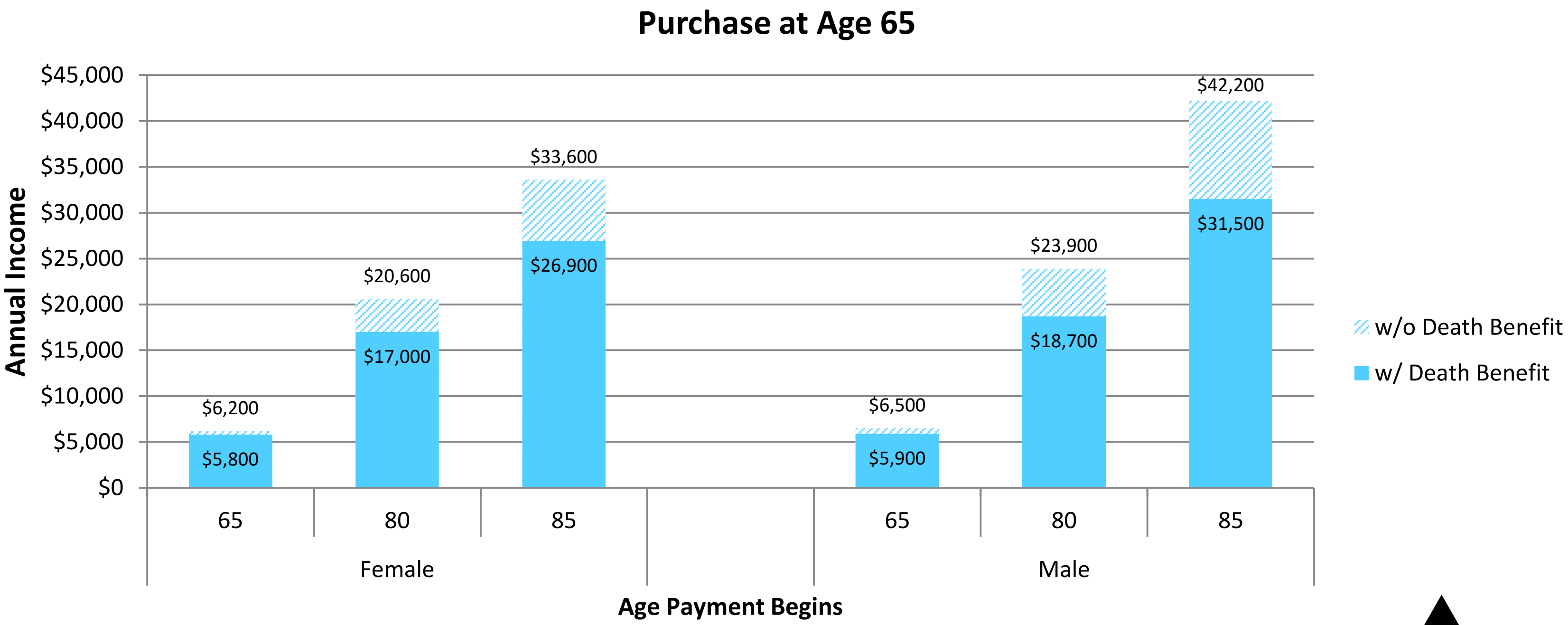
How to increase attractiveness of QLACs

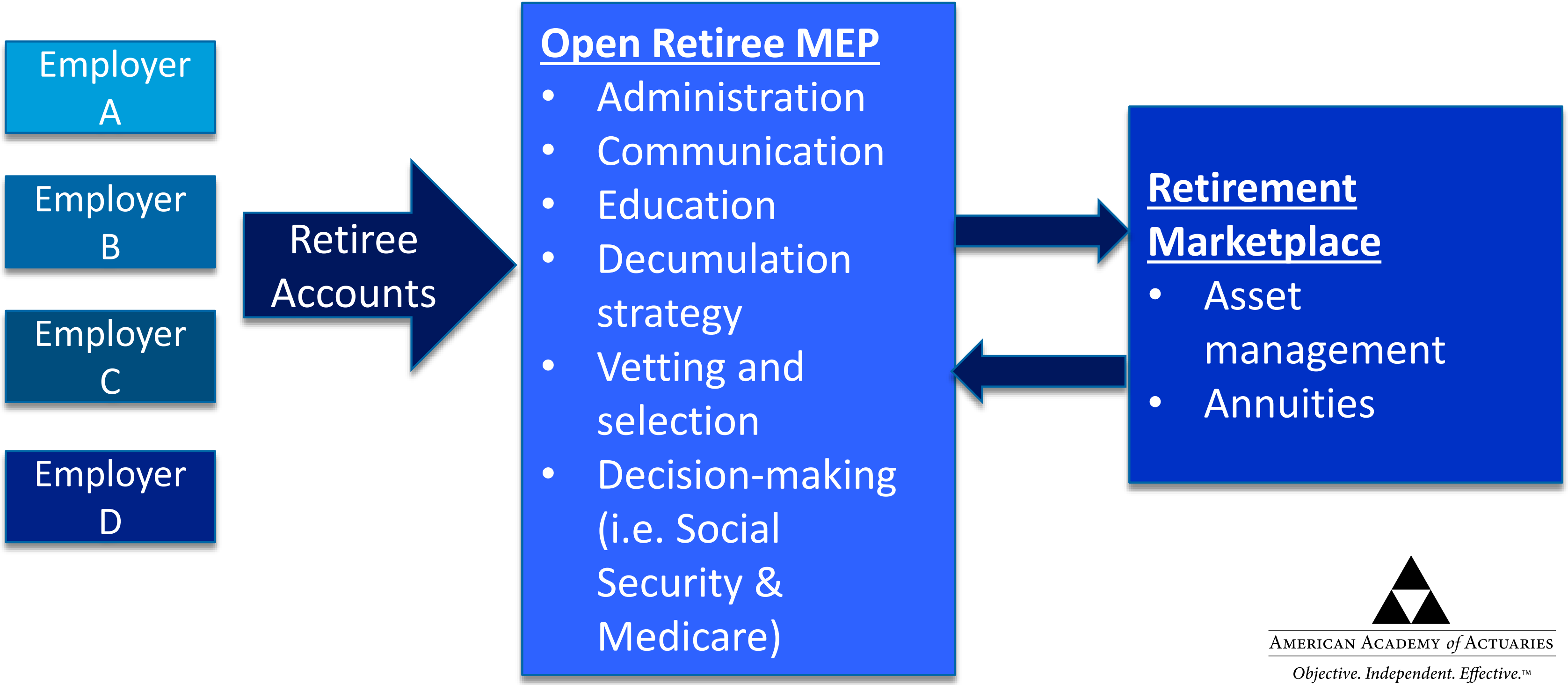
- Add flexibility
  - Allow variable/index-based returns
  - Eliminate unisex pricing;
  - Allow aggregation for 25% rule
- Modify annuity selection safe harbors
- Consumer education
  - Starting with efforts by the Department of Labor (DOL)

How much a $100,000 QLAC provides



Note: Amounts represent market rates for IRAs from publicly available sources on-line. If paid from a 401(k) plan a unisex basis would have applied (resulting in amounts between those shown).

Open Retiree Multiple Employer Plan



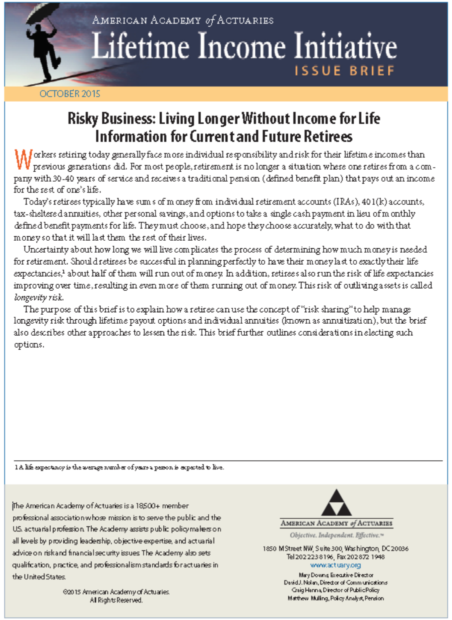
Advantages of Open Retiree MEPs

Retirees	Plan Sponsors
Large plan offerings and pricing	Minimize fiduciary risk
Spur development of drawdown and risk pooling strategies	Offer best-in-class services to retirees
Critical conflict-free decision-making support	Focus on core mission

Summary

- Converting lump sums to lifetime income will continue to be an issue even upon the adoption of lifetime income QDIAs
- QLACs can be a valuable alternative for select retirees
- Open Retiree MEPs could improve decumulation decision-making

Additional Academy resources



American Academy of Actuaries
Lifetime Income Initiative
ISSUE BRIEF
OCTOBER 2015

Risky Business: Living Longer Without Income for Life
Information for Current and Future Retirees

Workers retiring today generally face more individual responsibility and risk for their lifetime incomes than previous generations did. For most people, retirement is no longer a situation where one retires from a company with 30-40 years of service and receives a traditional pension (defined benefit plan) that pays out an income for the rest of one's life.

Today's retirees typically have sums of money from individual retirement accounts (IRAs), 401(k) accounts, tax-sheltered annuities, other personal savings, and options to take a single cash payment in lieu of monthly defined benefit payments for life. They must choose, and hope they choose accurately, what to do with that money so that it will last them the rest of their lives.

Uncertainty about how long we will live complicates the process of determining how much money is needed for retirement. Should retirees be successful in planning perfectly to have their money last to exactly their life expectancies,[1] about half of them will run out of money. In addition, retirees also run the risk of life expectancies improving over time, resulting in even more of them running out of money. This risk of outliving assets is called *longevity risk*.

The purpose of this brief is to explain how a retiree can use the concept of "risk sharing" to help manage longevity risk through lifetime payout options and individual annuities (known as annuitization), but the brief also describes other approaches to lessen the risk. This brief further outlines considerations in electing such options.

1 A life expectancy is the average number of years a person is expected to live.

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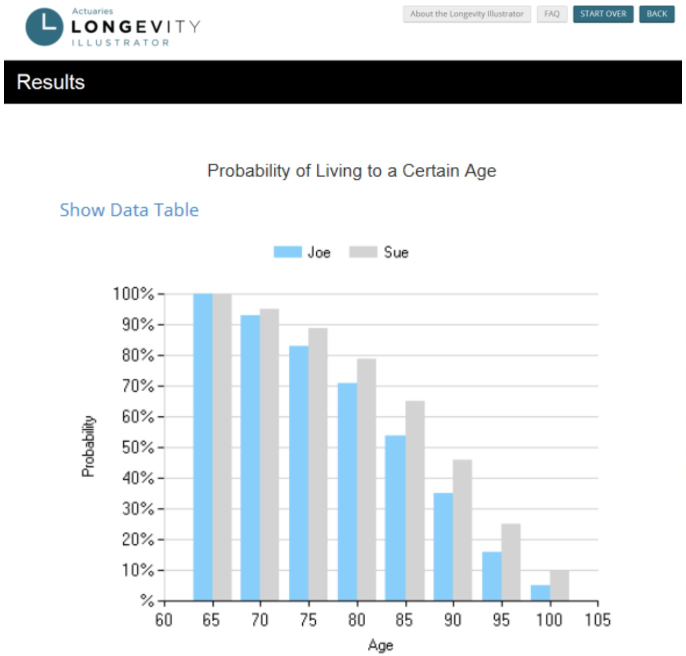
http://www.actuary.org/content/lifetime-income-initiative



http://www.longevityillustrator.org/Profile/ReportResults

http://www.actuary.org/lifetime-income-quiz

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Questions?

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