Making Retirement Income Last a Lifetime: Public Policy Options and Practical Tools
Today’s Presenters

☐ Josh Shapiro, MAAA, FSA, EA, FCA
  ▪ Vice President, Pension Practice Council

☐ Noel Abkemeier, MAAA, FSA
  ▪ Co-Chairperson, Lifetime Income Risk Joint Task Force

☐ Ted Goldman, MAAA, FSA, EA, FCA
  ▪ Senior Pension Fellow, American Academy of Actuaries
The Academy

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.
Agenda

- Lifetime Income: Challenges and Solutions
- Academy Position Statement
- Legislative Initiatives
- Academy Resources for Constituent Education
  - Lifetime Income Quiz
  - Longevity Illustrator
  - Issue briefs, analysis posted on Lifetime Income site
Lifetime Income: Today’s Focus

How much do I need to save?

How can I make it last a lifetime?
Why making it last is important

Risk of underestimating period of retirement – run out of funds

Risk of overestimating period of retirement – settle for lower standard of living
Typical sources of retirement income

- Social Security – lifetime income, inflation-adjusted
- Employer – pension or savings
- Personal – IRA, home equity, investments, employment, insurance
For many, IRA and 401(k) balances will be the major supplement to Social Security.
Why is lifetime income planning difficult?

- Lack of sufficient understanding of link between asset accumulation and the income it will produce
- Underestimation of one’s potential life expectancy
- Lack of familiarity with income management tools and resources
- Inconvenience of structuring lifetime income – e.g., access and understanding of annuity and structural withdrawal options
- Establishing and staying on a budget, especially with perception of large sum of money available
- Other unknowns – future health, economy, family status
No wonder most people find this daunting...

How can you be confident it will last for your lifetime?

How long will you live?

How much income will you need each year?

What if you become ill or disabled?

Do you have a spouse or other dependents?

What if investments do not perform as expected?

What if you live to 100?

How can you protect against inflation?

When should you start Social Security?

How should your savings be invested?
Two areas where individuals feel most challenged – how much and how long

- **Retirement Readiness Survey**
  

- Knowing how much to save: 31%
- Knowing how long assets will last: 40%
How can this be solved?

- Focus on the lump sum savings account balance:
  - Plan sponsors as a trusted provider of education, resources, and tools about income planning
  - Defined contribution (DC) plans, such as 401(k)s, to provide income options rather than just lump sum payouts
The Academy’s Position Statement

POSITION STATEMENT

RETIREMENT INCOME OPTIONS

in Employer-Sponsored Defined Contribution Plans

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. Such options, based upon actuarial principles such as longevity pooling and other risk mitigation strategies, can help retirees manage their financial security over their remaining lifetime.

Retirement public policy should encourage and enable the development of lifetime income solutions, tools, and education.

## More flexibility, lower fiduciary risk

### Remove barriers
- Fiduciary liability
- Education constraints
- Inadequate safe harbors

### Initiate actions
- More income options
- Portability of lifetime income options
- Simpler selection of insurers and offerings
- Access to education
- Encourage innovations (i.e., defaults and nudges)
Key areas of focus

- Safe harbors
  - Reluctance by employers to offer lifetime income options in plans due to fiduciary risk
  - Need safe harbors that are simple and objective

- Lifetime income options
  - More flexibility, but simple and easy to select
  - Likely a combination of multiple approaches: Single Premium Annuities, Qualifying Longevity Annuity Contracts (QLACs), flexible withdrawal strategies, etc.
## The benefit of income options in DC plans

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Longevity risk pooling and institutional pricing opportunities beyond</td>
<td>- Lower costs provide greater net benefits</td>
</tr>
<tr>
<td>individual markets</td>
<td></td>
</tr>
<tr>
<td>Ease of Transaction</td>
<td>- No need to perform IRA rollover</td>
</tr>
<tr>
<td>Provider and product due diligence</td>
<td>- Minimizes poor choices in provider and product selection</td>
</tr>
<tr>
<td>Guidance on retirement income planning and longevity risk management</td>
<td>- Plan-provided educational materials and tools can help individuals analyze choices</td>
</tr>
</tbody>
</table>
The benefit to retirees

- Increased access to sound advice from a familiar source (the employer)
- More timely introduction of options and related decision-making
- Greater availability of income options from quality providers with minimal complexity and competitively priced
  - Lifetime income payment streams (e.g., annuities) commencing with retirement or starting later in life (i.e., age 80 or 85)
  - Structured withdrawal programs
  - Coordination of payments with Social Security benefits
- Improved decision-making and confidence in choices
It’s a Bipartisan Issue: Proposed legislation addressing lifetime income

- Retirement Enhancement and Savings Act of 2018 (S. 2526 and H.R. 5282)
  - Portability of lifetime income options
  - Annual disclosure of savings balance as lifetime income amount
  - Fiduciary safe harbor for selection of lifetime income provider

- Lifetime Income Disclosure Act (S. 868 and H.R. 2055)
  - Annual participant statement of lifetime income value of DC plan balance

- The Retirement Plan Simplification and Enhancement Act of 2017 (H.R. 4524)
  - Availability of distribution options
  - In-plan lifetime income options portability
  - Qualifying Longevity Annuity Contract reforms
  - Removes some Required Minimum Distribution (RMD) barriers for life annuities
  - Exceptions from RMD rules for smaller savings balances

- Increasing Access to a Secure Retirement Act of 2017 (H.R. 4604)
  - Provide fiduciary safe harbor for selection of lifetime income provider
Moving forward

- Consider proposed legislation
- Identify remaining gaps and consider incentives to encourage and enable stakeholders
- Educate the general public – your constituents!
Progress will come from multiple efforts

- Policymakers/regulators: reduce barriers
- Employers: educate, offer options
- Financial services providers: develop innovative strategies
- Individuals: embrace solutions and take action
Constituent education

- Lifetime Income Quiz
  - www.actuary.org/lifetime-income-quiz

- Actuaries Longevity Illustrator
  - www.longevityillustrator.org

- Essential Elements: Income to Last a Lifetime

- Academy lifetime income webpage
  - www.actuary.org/content/lifetime-income-initiative
An online quiz you can use to help your constituents

Test your knowledge about retirement income choices

Planning for retirement includes two stages: first, accumulating adequate savings, and, second, making sure that these savings provide an income that will last a lifetime. Take this quiz to test your knowledge on how to create a sound lifetime income strategy. The questions can provide some insight into issues in planning for retirement income, a better understanding of some key concepts, and choices that you may face in deciding how to convert your savings into lifetime retirement income.

START
Sample question

Eleven multiple choice questions
Sample answer

Correct answer: It depends

The best approach depends upon each retiree’s situation. The solution will vary based upon the amount of income from Social Security and a pension, the amount of retirement savings and other resources, investment risk tolerance, the health of the retiree, and other considerations, such as the importance of leaving an inheritance. A lifetime income annuity could start immediately or at a later age, up to 85 (known as a Qualifying Longevity Annuity Contract (QLAC) if purchased with funds from an IRA or a 401(k) plan). Note that the planned withdrawal approach may not last a lifetime and the investment income withdrawals may provide irregular or inadequate income. The best approach very well may be a combination of the various approaches.
The Actuaries Longevity Illustrator

Simple online tool available to the public to:

- Address life expectancy misconceptions
- Incorporate simple underwriting criteria
- Emphasize importance of planning for couples

http://www.longevityillustrator.org/
Example – Retiree and Spouse both age 65, non-smokers, average health
Valuable graphic outcomes – three perspectives

**Probability of living to a certain age – longevity as a range**

**Planning horizon – arranged in the order of chance of survival and shows single and joint lifetime information**

**Probability of living for a specified number of years – charts the probability of surviving in terms of years for single and joint lifetimes**
Probability of living to a certain age
Planning horizon

**Graph**

- Joe
- Sue
- Either
- Both

**Chart**

<table>
<thead>
<tr>
<th>Probability</th>
<th>Joe</th>
<th>Sue</th>
<th>Either</th>
<th>Both</th>
</tr>
</thead>
<tbody>
<tr>
<td>90%</td>
<td>6</td>
<td>9</td>
<td>17</td>
<td>4</td>
</tr>
<tr>
<td>75%</td>
<td>13</td>
<td>16</td>
<td>22</td>
<td>9</td>
</tr>
<tr>
<td>50%</td>
<td>21</td>
<td>24</td>
<td>27</td>
<td>16</td>
</tr>
<tr>
<td>25%</td>
<td>27</td>
<td>30</td>
<td>32</td>
<td>22</td>
</tr>
<tr>
<td>10%</td>
<td>32</td>
<td>34</td>
<td>36</td>
<td>27</td>
</tr>
</tbody>
</table>

Years of survival
Probability of living a specified number of years
Illustrating sensitivities

<table>
<thead>
<tr>
<th>Age</th>
<th>Gender</th>
<th>Smoking Status</th>
<th>Health</th>
<th>Age at Given Chance of Survival</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>75%</td>
</tr>
<tr>
<td>65</td>
<td>M</td>
<td>No</td>
<td>Average</td>
<td>78</td>
</tr>
<tr>
<td>65</td>
<td>F</td>
<td>No</td>
<td>Average</td>
<td>81</td>
</tr>
<tr>
<td>65</td>
<td>M</td>
<td>Yes</td>
<td>Poor</td>
<td>71</td>
</tr>
<tr>
<td>65</td>
<td>M</td>
<td>No</td>
<td>Poor</td>
<td>76</td>
</tr>
<tr>
<td>35</td>
<td>M</td>
<td>No</td>
<td>Average</td>
<td>81</td>
</tr>
<tr>
<td>65</td>
<td>F</td>
<td>No</td>
<td>Excellent</td>
<td>83</td>
</tr>
<tr>
<td>35</td>
<td>F</td>
<td>No</td>
<td>Excellent</td>
<td>86</td>
</tr>
</tbody>
</table>
"As with expenses, you can’t determine exactly how long you’ll live. But if you go to the Actuaries Longevity Illustrator and enter your age and gender and select your health status (poor, average or excellent), the tool will estimate your chances of living to various ages. Based on that information—and going through the process again every few years in retirement or whenever you experience a significant change in health—you’ll be able to make a more informed judgment of how many years you may have to count on your savings to support you."

"The American Academy of Actuaries and the Society of Actuaries created the Longevity Illustrator to help users develop personalized estimates for their longevity based on a few questions about age, gender, and health. Exhibit 1 provides these numbers for sixty-five-year-old males and females based on their health assessment and smoking status."
Additional resources

- Academy webpage offers a wealth of material

http://www.actuary.org/content/lifetime-income-initiative
Why this is important

- Clear public interest to enhance retirement security for fast-growing, longer-living retiree population
- May have important implications due to an additional strain on social safety net programs
Questions?

For more information contact:
Monica Konaté, Pension Policy Analyst
Konate@actuary.org
202-223-8196