



RISKY BUSINESS: LIVING LONGER WITHOUT INCOME FOR LIFE

AMERICANS PLANNING FOR RETIREMENT TODAY face more individual responsibility and risk for their retirement incomes than prior generations experienced, partly due to the decline of traditional defined benefit pension plans that paid monthly benefits. Now that the baby boomer generation has started to retire, many are discovering that they may have not taken sufficient steps to manage the challenges that come with replacing their former paychecks with adequate monthly income during retirement. Part of this challenge involves longevity risk—the risk of living beyond life expectations—that adds more complexity to retirement planning because people face outliving the income provided by their assets.

Some retirees have taken lump-sum distributions from their 401(k) defined contribution accounts, individual retirement accounts (IRAs), and other retirement funds that they amassed over decades of work and may not have had access to adequate information about how to use those funds to create an income stream to pay their everyday living expenses in retirement. While adding money monthly to a 401(k) or IRA account during the working years might become routine for some, workers and retirees often face hurdles to obtain unbiased, easy-to-understand information about how to finance their retirement and where to find the right solutions to manage their lifetime incomes.

What can be done to lower these obstacles and better prepare current and future retirees to secure and manage their lifetime income needs?

Many approaches are needed to help future retirees secure lifetime incomes to provide them with the security and dignity of personally managing their retirement. These approaches include public-policy changes, changes within retirement plans, and broad-based public education efforts. These solutions require participation from all stakeholders: policymakers, actuaries, employers, financial planning advisers, and financial product and service providers.



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Candidates during election 2016 should be raising the visibility of the challenges of securing income for life so that policymakers are spurred to action upon taking office. Possible approaches include:

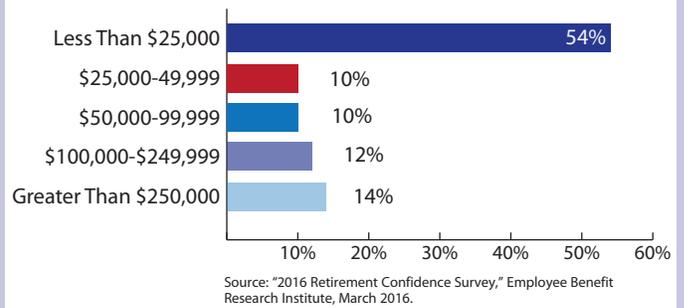
Altering Federal Retirement Policies

- Address Social Security’s long-term funding issues to ensure confidence in the program’s stability and assure retirees that they can plan accordingly.
- Increase the Social Security maximum age for delayed retirement credit beyond the current age 70 to allow additional flexibility in addressing longevity risk.
- Modify the age for required minimum distributions (RMD) in retirement plans beyond 70½ years to reflect increasing life expectancies, and implement proposed regulations that allow longevity annuities to satisfy RMD rules.
- Reduce insecurity about pensions by highlighting the value of life and health guaranty associations and the Pension Benefit Guaranty Corporation, and ensuring the programs remain sufficiently strong.
- Provide well-targeted tax incentives to encourage use of lifetime income solutions.

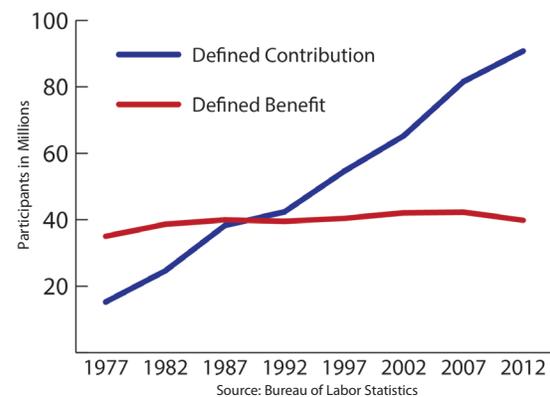
Emphasizing Financial Literacy and Education

- Improve information provided to workers to raise their understanding about how to prepare for retirement, and focus on the concept of lifetime income by expressing benefits in terms of monthly lifetime income in periodic retirement plan statements.
- Provide additional lifetime-income education and make available lifetime-income products when people receive lump-sum distributions from a retirement plan or are faced with decisions about whether to cash out a defined benefit pension plan through a lump-sum distribution.

Workers’ Current Level of Savings and Investments



DC Plans vs. DB Plans



- Expand existing initiatives of the U.S. Department of Labor and other public entities that currently disseminate objective retirement information.

Refocusing Retirement Plan Designs

- Add design flexibility, which in some cases would require changes to federal statutes or regulations, to facilitate greater exercise of lifetime-income options. For example, make it easier for defined contribution plan providers to offer lifetime-income allocation choices for workers and partial annuitization at distribution for new retirees.

Securing income throughout retirement is important for all Americans as they plan and save for retirement, and ultimately manage their accumulated funds. Steps need to be taken to facilitate these efforts to achieve secure lifetime incomes for more retirees. Retirement income security issues should be debated in this election cycle for the voting public to understand how candidates propose to address these challenges.



Additional Resources From the Academy:

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