

# Efforts to Ensure Longevity of Savings

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# Summary



- Workers should understand their retirement savings in terms of guaranteed lifetime income;
- Some level of guaranteed lifetime income is necessary; and
- Employers should be encouraged to offer guaranteed lifetime income options.

# ***Guaranteed Lifetime Income Illustration***



Workers should understand their retirement savings in terms of guaranteed lifetime income:

- Workers largely covered by DC plans. 2010 Matthew Greenwald survey results:
  - Illustration of lifetime income is valued (91%).
  - Illustration would create more savings, not detract from it (61%).
  - Most want illustration regularly available (85%).
- Legislation introduced by Senators Bingaman, Isakson & Kohl (S. 2832) and by Rep. Kind (H.R.4742).
- Illustration does not preclude other types of income distribution options.

# ***Levels of Annuitization***



Some level of annuitization is necessary:

- For low-income individuals, Social Security will replace a greater percentage of their pre-retirement income.
- For other individuals, by covering fixed basic living expenses with a guaranteed lifetime income source, they will enjoy much greater flexibility in planning for other areas of their retirement financing.

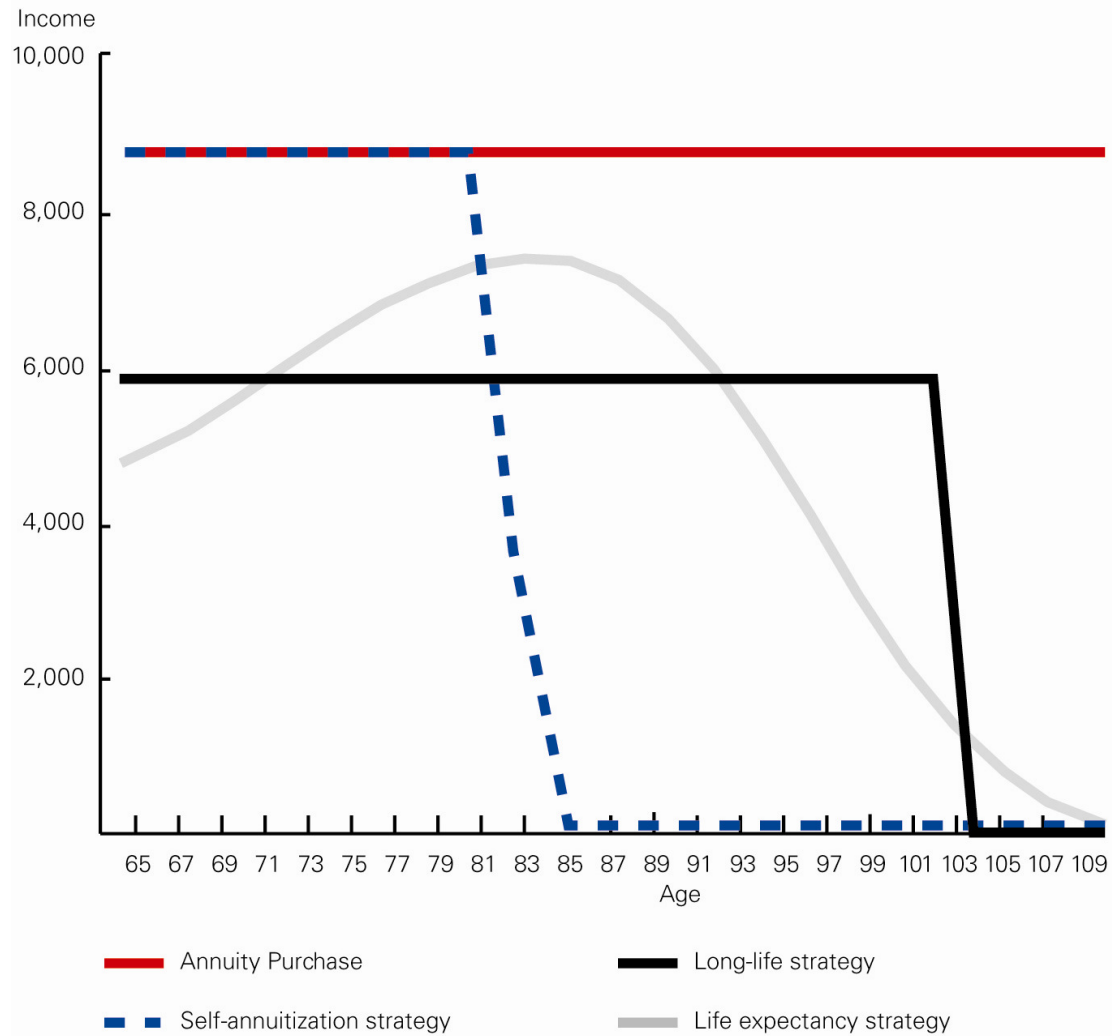
# ***Benefits of Guaranteed Lifetime Income***



Cost efficient, reliable and flexible.

- Thanks to risk pooling, guaranteed lifetime income products can provide secure income for one's entire lifetime for 25-40% less money than it would cost an individual to provide a similar level of secure lifetime income through traditional means (2007 Wharton and NY Life study).
- Set it and forget it: 2009 study found that half of those in their 80's suffer from either dementia or a significant cognitive impairment that prevents them from making sound financial decisions (2010 Response by Prof. Shlomo Benartzi, UCLA).
- Insurers have responded to consumer feedback designing new innovative policies that can be tailored to an individual's personal financial needs (i.e, annual inflation adjustments, death benefit, access to capital in emergencies, et al...).

## ANNUITIZATION VS. ALTERNATIVE ASSET MANAGEMENT STRATEGIES



Source: ACLI Calculations based on federal Thrift Savings Plan Website as of 17 January 2007 and 2005 IRS Single Life Expectancy Table (unisex).

# ***Employers Role***



Employers should be encouraged to offer guaranteed lifetime income options.

- Most workers primarily save for their retirement in their employer-sponsored plan.

Employer sponsored plans offer spousal protections and gender neutral annuity payments. Group annuities offer institutional pricing.

- The Administration and Congress should work to address the fiduciary concerns that currently discourage employers from offering annuities.
- Amend 96-1 to make it easier for employers to educate employees regarding lifetime income.
- Facilitate partial annuitization from DC plans.