

# Risky Business: Living Longer Without Income for Life

Donald E Fuerst, FSA, MAAA  
Senior Pension Fellow American  
Academy of Actuaries

Anna Rappaport, FSA, MAAA  
Chair, Post Retirement Needs & Risks  
Society of Actuaries



Copyright © 2014 by the American Academy of Actuaries  
All Rights Reserved.



# American Academy of Actuaries

The American Academy of Actuaries is a 17,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists 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.



# Society of Actuaries

The Society of Actuaries (SOA) is an educational, research and professional organization dedicated to serving the public and Society members.

- Largest actuarial organization in the world
- 24,000 actuaries in the United States, Canada and worldwide
- Vision is for actuaries to be the leading professionals in the measurement and management of risk



# Academy Lifetime Income Initiative

- The Academy's lifetime income initiative is part of its continuing effort to provide objective, unbiased information to serve the public and the United States actuarial profession
  - Promote meaningful discussions both within and outside the profession
  - Actively engage with the public policy community
  - Host discussion symposia on longevity, longevity risk, and lifetime income
  - Develop actuarial policy statements



# Risky Business

The Academy's discussion paper, *Risky Business: Living Longer Without Income for Life*, provides background on the problem of inadequate lifetime income planning, identifies major causes, and describes steps that could alleviate the problem



# Lifetime Income and Longevity Risk

- Longevity risk reflects the challenges of living longer, e.g., poor health, reduced ability to manage investments, difficulty living on your own, depletion of assets, lack of a lifetime income, etc.
- Lifetime income risk, the risk of outliving your assets, is one specific longevity risk
- Lifetime income should be structured to cover basic needs



# Why is Lifetime Income Risk an Issue?

- Americans are living longer
- An increasing number of retirees as baby boomers reach retirement age
- Migration from defined benefit plans to defined contribution plans has reduced the source of predictable retirement income
- Retirees have saved or invested inadequately or lost significant savings in the market slides since 2000
- Retirees are not converting savings into lifetime income



# What are Lifetime Income Risk Problems?

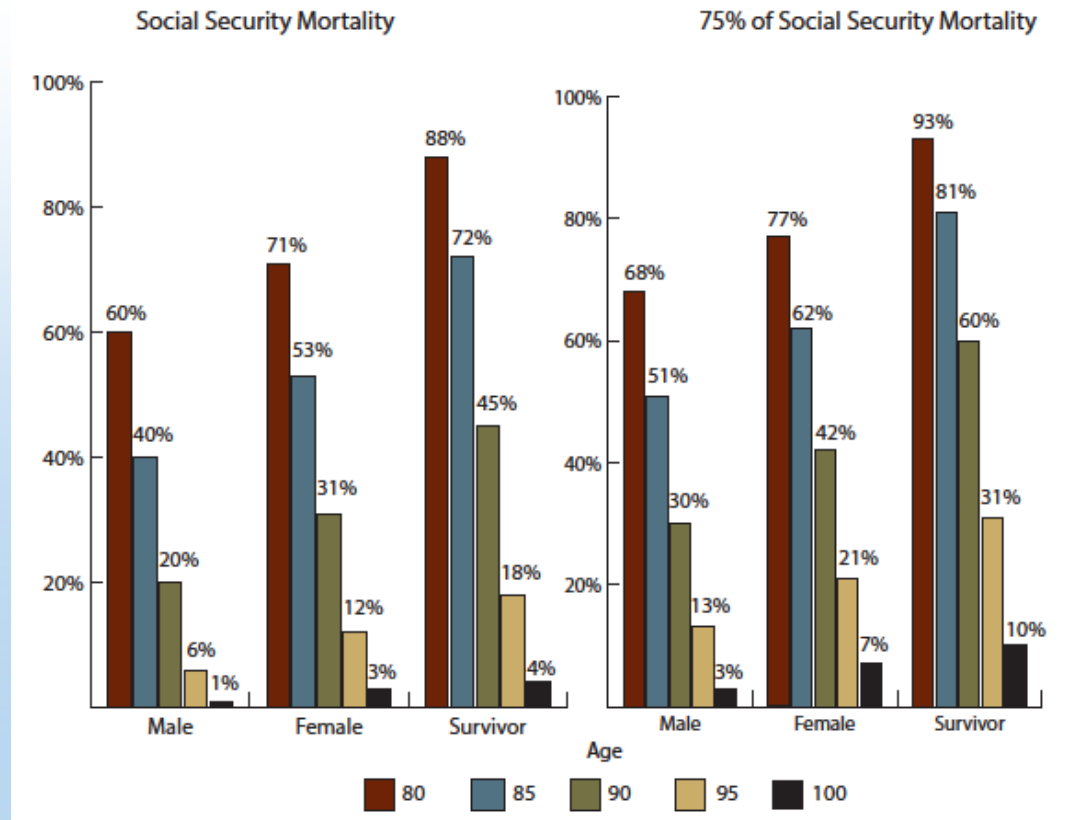
- Without careful planning, retirees risk running out of income to cover basic needs of their lifestyle
- If individuals outlive the income provided by their assets, they risk becoming a burden on family and/or society
- There may not be support mechanisms (e.g., social safety nets) for all those who failed or were unable to sufficiently plan and provide for adequate lifetime income





# Probability of Living to Certain Ages in Retirement

Probability of Living from Age 65 to Various Ages



\*Analysis of the 2007 period life table for the Social Security area population, <http://www.ssa.gov/oact/STATS/table4c6.html>



# Time to Act

- Workers and retirees need to be better prepared to manage their lifetime income needs in retirement
- A number of actions need to be taken to change the dynamics and provide much needed financial education.
- The problem cannot be solved with a single solution, but rather with a number of approaches that address lifetime income from different directions
- The support and efforts of employers, lawmakers, and financial product providers will be necessary

