



Longevity Risk and the Lifetime Income Crisis

Public Policy Initiatives and Implications

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Key Messages

- Americans who own insured retirement products have greater confidence in their overall retirement expectations
- Professional advice has a positive and significant impact on overall retirement readiness
- Expanding access to lifetime income and preserving access to financial advice are essential to increasing retirement security for millions of Americans



Longevity Risk in the Headlines

Longer Life Means More Financial Strain

Americans Less Likely to Label Aging as Problem

Retirement Readiness Looks Grim in Many States

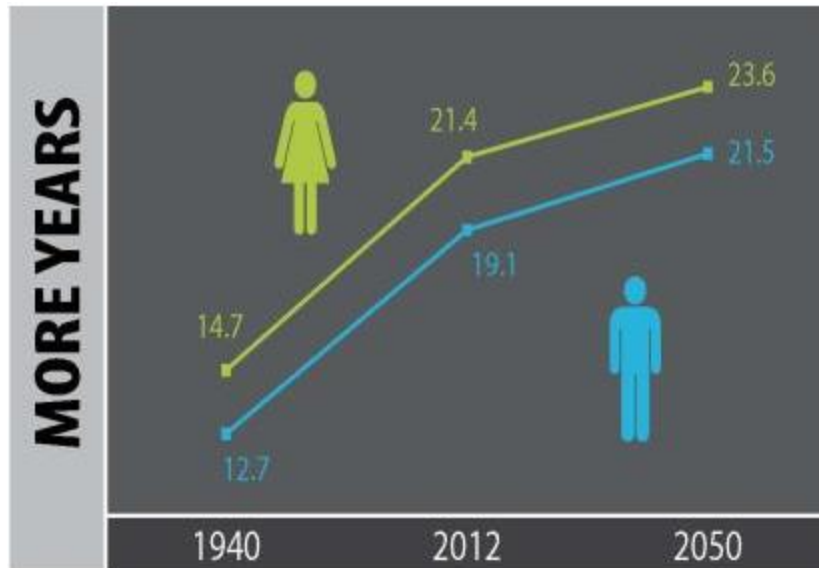
U.S. Retirement System Barely Makes Top 20

Income as the Outcome: Reframing the 401(k) Plan

As Life Expectancy Grows, Annuities Gain Supporters



The Retirement Income Crisis



MORE THAN A
60%
CHANCE THAT
AT LEAST
ONE SPOUSE
WILL LIVE TO
90



MORE THAN A
35%
CHANCE THAT
AT LEAST
ONE SPOUSE
WILL LIVE TO
95

Sources: Social Security Administration. "2013 Social Security Trustees Report;" Society of Actuaries. "SOA Annuity 2000 Mortality Table."

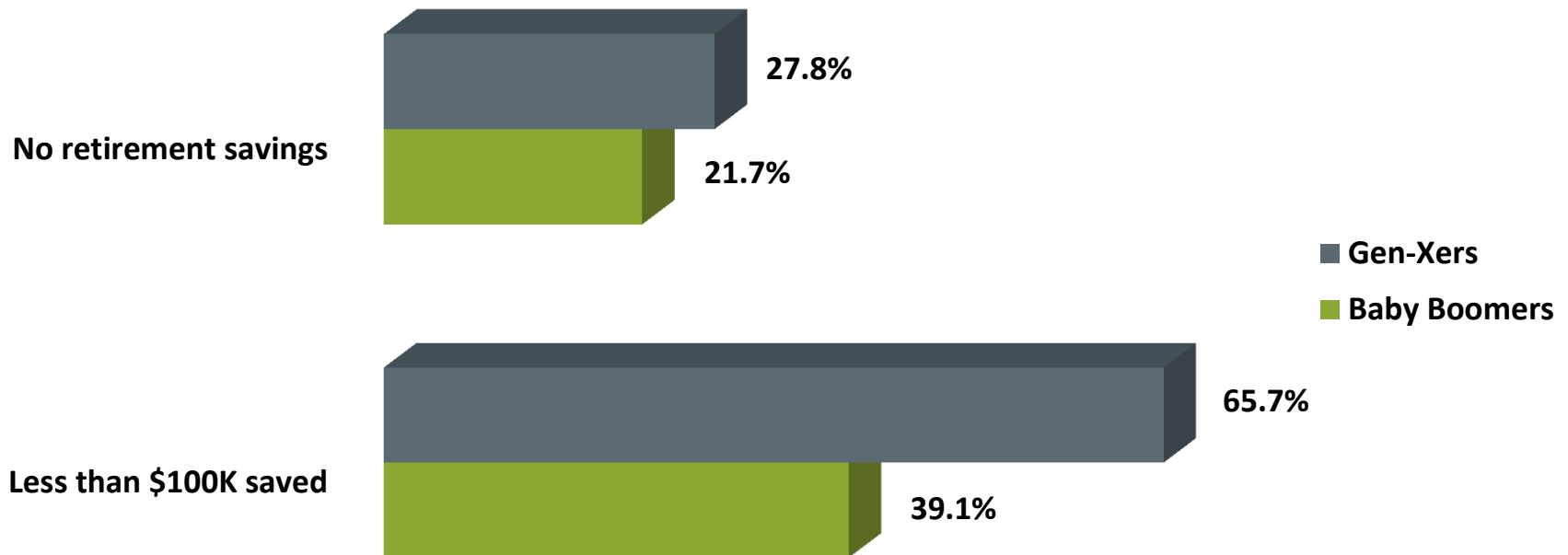


Many Other Challenges and Risks

- Rising Health Care Costs
- Inflation risk
- Uncertainty about Social Security
- Excess withdrawal risk
- Shift Away from Traditional Pensions
- Sequence of returns risk
- Market risk
- Asset allocation risk
- Tax uncertainty risk



Risk for Inadequate Retirement Income



Source: IRI Baby Boomers and Generation Xers (August 2012)



Retirement Confidence is Declining

- Decreasing percentage of Baby Boomers are confident in their financial preparations for retirement:
44% in 2011 ... 37% in 2013
- 61% of Baby Boomers believe their personal financial situation will be the same or worse five years from now

Source: IRI. "Boomer Expectations for Retirement 2013: Third Annual Report on Retirement Preparedness of the Boomer Generation" (April 2013)



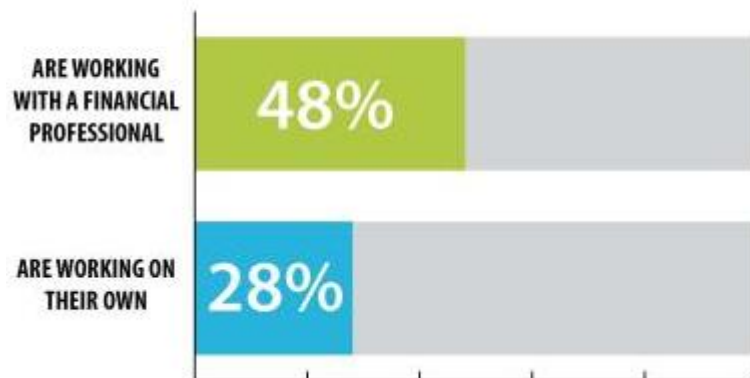
Professional Advice Improves Retirement Readiness

- 8 out of 10 Boomers believe they are better prepared for retirement because of using an advisor
- The two main topics discussed with financial advisors are retirement (81%) and investing (79%)
- Nearly three-quarters (74%) of Boomers would recommend their financial advisor

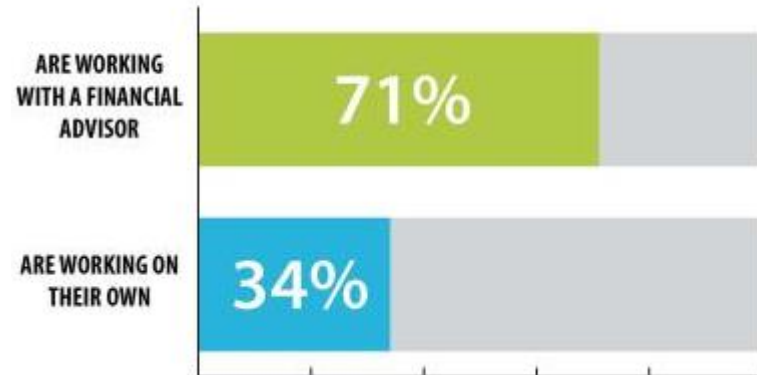


Significance of Professional Advice

BABY BOOMERS WHO ARE EXTREMELY CONFIDENT IN THEIR FINANCIAL PREPARATIONS FOR RETIREMENT



BABY BOOMERS WHO HAVE DETERMINED A RETIREMENT SAVINGS GOAL



BABY BOOMERS WHO HAVE RETIREMENT SAVINGS

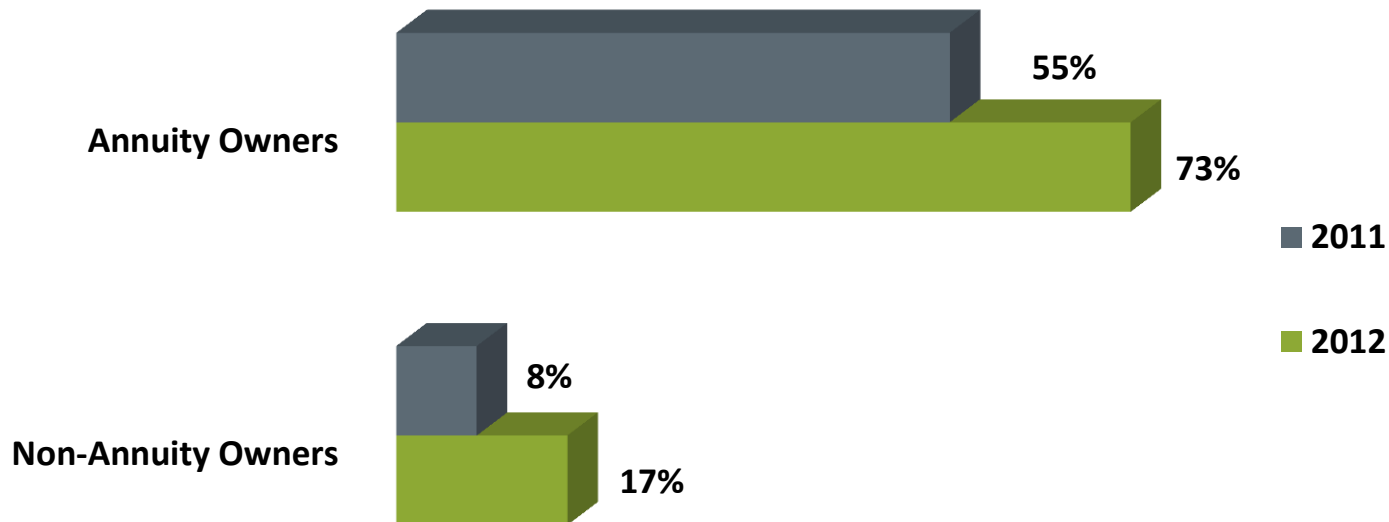


BABY BOOMERS WHO ARE ENGAGED WITH RETIREMENT PLANS





Annuities – A Critical Part of Retirement Strategy



Source: IRI & Cogent Research. "Evolution of the Annuity Industry" (September 2012)



Annuities Increase Confidence and Improve Retirement Readiness

- Nine out of ten Boomers who own annuities believe they are doing a good job preparing for retirement
- 71 percent of Boomers who own annuities have calculated a retirement goal.
- 90 percent of annuity owners are somewhat or very satisfied with their annuity-based investments

Sources: "Boomer Expectations for Retirement 2013: Third Annual Report on Retirement Preparedness of the Boomer Generation" (April 2013); IRI & Cogent Research. "Evolution of the Annuity Industry" (September 2012)



Advisors More Focused on Retirement Income and Annuities

- 84% of financial advisors say they are having more retirement-income discussions with clients
- 71% say they had a client request to purchase an annuity during the last year

Source: IRI & Cogent Research. "Evolution of the Annuity Industry" (September 2012)

Tax Reform

- Protecting current tax treatment of annuities and other retirement savings is a top priority for IRI
- All serious discussions about the current tax code have included proposals to eliminate all tax expenditures from the tax code
- Industry must demonstrate the importance of tax deferral for Americans and their retirement savings



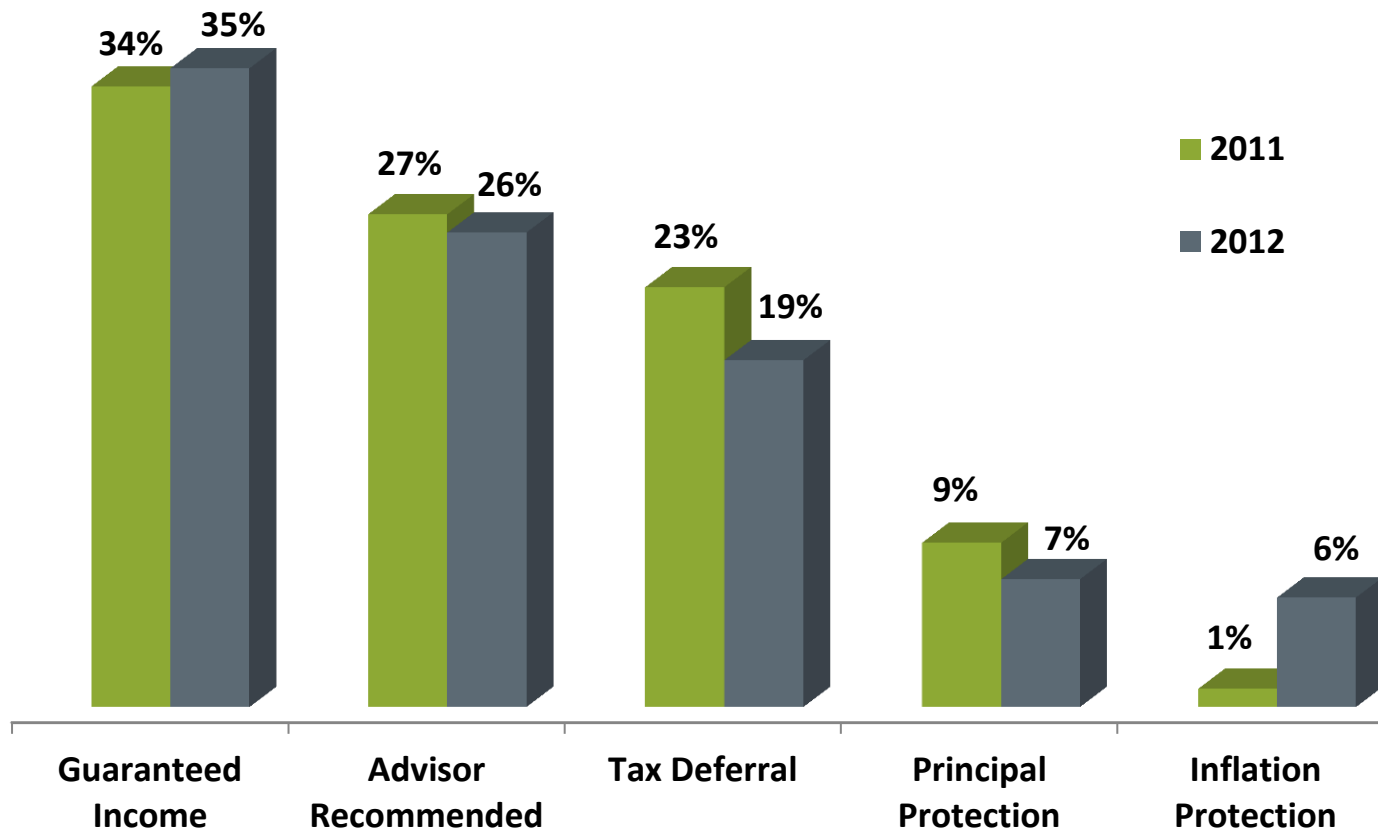


IRI Research on Tax Deferral

- 77% of middle-income Baby Boomers consider tax deferral an important feature of a retirement investment product
- 24% would be less likely to save for retirement if those incentives were reduced or eliminated
- IRI will continue to stress the importance of tax deferral while maintaining an aggressive advocacy campaign



Top Five Reasons to Purchase an Annuity



Source: IRI & Cogent Research. "Evolution of the Annuity Industry" (September 2012)



Retirement Reform Proposals

- State of the Union Remarks and MyRA Proposal
 - President Obama
- USA Retirement Funds Act
 - Senator Tom Harkin (D-IA)
- Retirement Security Act
 - Senators Susan Collins (R-ME) and Bill Nelson (D-FL)
- SAFE Retirement Act
 - Senator Orrin Hatch (R-UT)



DOL Fiduciary Definition Rule

- DOL proposed new definition of investment advice fiduciary under ERISA in October 2010
- DOL withdrew proposed rule in September 2011
- Modified proposal expected in next few months





Potential Impact of DOL Fiduciary Definition Rule

- Hundreds of thousands of broker-dealer representatives would become ERISA fiduciaries
- Individuals with modest balances would be forced into more expensive annual fee accounts or left without professional help
- One million fewer IRAs would be established each year
- 18 million small IRA investors would lose access to their financial professional
- \$240B in retirement savings would be lost over next 20 years

Source: Oliver Wyman. "Assessment of the Impact of the Department of Labor's Proposed 'Fiduciary' Definition Rule on IRA Consumers" (April 2011)



SEC Standard of Care

- Dodd-Frank directed SEC staff study found need for new standard of care for financial professionals providing financial advice
- SEC 2013 Request for Information
 - Detailed cost-benefit questions
 - Fiduciary standard—acting in “best interests”
 - Duty of loyalty (disclosure) and duty of care (suitability)
 - Other alternatives





IRI Position on SEC Standard of Care

- Investors should have the same general protections when receiving comparable investment services
- SEC must recognize and account for significant and valuable differences between IAs and B-Ds
- Proposal should be rules-based and carefully formulated to prevent undue litigation risks
- SEC and DOL must coordinate with each other



Increasing Access to In-Plan Annuity Options

- President's Middle Class Task Force:

Promoting the availability of annuities and other forms of guaranteed lifetime income, which transform savings into guaranteed future income, reducing the risks that retirees will outlive their savings or that their retirees' living standards will be eroded by investment losses or inflation.

- Treasury/DOL initiative to make lifetime income options more broadly available in retirement plans



Lifetime Income Illustration Proposals

- DOL Advance Notice of Proposed Rulemaking
 - Would require of lifetime income illustrations based on accrued and projected account balances
 - Illustrations would be in the form of annuities
- Lifetime Income Disclosure Act of 2013 (H.R. 2171)



IRI Comments on DOL Lifetime Income Illustration Proposal

- IRI supports proposal and offered comments to help refine and implement rule
- DOL should carefully consider benefit of requiring illustrations based on projected account balances
- Rule should be flexible –require illustrations based on generally accepted investment theories and actuarial principles
- Illustrations should not create fiduciary liability



DOL Safe Harbor for Selection and Monitoring of Annuity Providers

- Fiduciary concerns are the most significant obstacle to more widespread inclusion
- IRI working with DOL and NAIC to provide clarity to plan sponsors
- Included in Harkin Bill



Treasury Lifetime Income Proposals

- Qualifying Longevity Annuity Contract (QLAC) Proposal – Would remove longevity annuities from Required Minimum Distribution (RMD) rules
- Partial Annuitization Proposal – Would eliminate all-or-nothing choice



Retirement Resources

- National Retirement Planning Coalition / National Retirement Planning Week (April 2014)

www.retireonyourterms.com



- IRI Public Policy Resource Center

www.irionline.org/government-affairs/public-policy-maker-resource-center

- IRI SmartBrief Newsletters

www.irionline.org/newsroom/smartbrief-subscribe



Closing Thoughts

“When it comes to handling money, I realized years ago that my talents lay in an altogether different direction. So, I have signed up for a large enough annuity to keep me comfortable when the bats and strikes and home runs will only be pleasant memories.”

- Babe Ruth



QUESTIONS?

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