

## AMERICA'S RETIREMENT CHALLENGE

2019

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# ADDRESSING AMERICA'S RETIREMENT SAVINGS CHALLENGE: THE SOCIETAL BENEFITS OF PROTECTED LIFETIME INCOME

As a generation of workers without pension plans gets ready to retire, America is facing a retirement challenge. Seventy-five percent of younger baby boomers and later generations lack any source of protected lifetime income other than Social Security, according to research from the Alliance for Lifetime Income.

Instead, these retirees and generations of future retirees will need to rely heavily on their own personal savings to get them through retirement. That can be especially tough in an environment that presents a variety of financial challenges, including market volatility, inflation and rising health care costs.

At the same time, Americans are living longer. About 25% of Americans who are 65 today can expect to live into their 90s, and 10% will live beyond 95, according to the Social Security Administration! This means their retirement funds may need to last upward of three to four decades.

Even individuals who have been steadily saving at recommended levels, knowing all the while that they won't receive pension income, will face significant financial challenges. They won't really know how long their money will last and may not know how to generate the lifetime income they need. The retirement savings and income that these individuals do have may need to be spent on basic necessities, instead of amenities that could make their retirement years more rewarding, such as travel, leisure and dining out.

And if their savings don't stretch far enough in retirement, the consequences could be significant for our society.

### A PROBLEM FOR THE NATION

Ultimately, the retirement savings situation could lead to a scenario in which the government will have to step in to provide funding so that these retirees don't run out of money. The social impact of this could be significant, with taxpayer dollars going to help retirees pay for housing and medical expenses instead of funding public needs like education or infrastructure.

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There is a way to mitigate the impact, though, by adding protected lifetime income to a diversified retirement portfolio. Protected lifetime income products, such as an annuity, ensure a steady rate of monthly retirement income that can last a lifetime.

In its simplest terms, an annuity is a contract between an individual (or married couple) and a life insurance company. An annuity can be an important part of a diversified retirement portfolio because, no matter how other retirement investments perform, the annuity can provide retirees with a source of protected lifetime income that few other financial products can offer. Annuities are more familiar than some may realize. In fact, pension plans of the past typically offered an annuity option that created protected lifetime income, while most of today's 401(k) plans do not.



## A POSITIVE SHIFT IN RETIREMENT THINKING

While a move toward protected lifetime income may help, there's a growing movement around the idea that this type of income solution shouldn't exclusively be the responsibility of individuals. Recent signs show that the societal impact is becoming better understood and acknowledged.

Even Congress is looking into the rules of saving for retirement. In late May, the House of Representatives passed a slightly modified version of the Secure Act, which will now head to the Senate. In the Senate, there is also a similar bill which has yet to be voted out of committee — the Retirement Enhancement and Savings Act (RESA). This act contains a number of provisions aimed at increasing voluntary retirement savings. These include repealing the maximum age for traditional IRA contributions, allowing for open multiple-employer plans and incentivizing small businesses to start new plans for employees. Most significantly, RESA also includes provisions that would make it easier for employers to include lifetime income solutions in workplace retirement plans.

Initiatives like these show that the conversation around retirement finances is shifting from accumulating a pile of savings to calculating your monthly income for your retirement years. The Alliance for Lifetime Income has been an advocate of this type of retirement planning, urging individuals with retirement savings to talk to their financial professionals about whether or not protected lifetime income is right for them.

Having a predictable form of monthly income goes a long way toward providing a feeling of certainty and security. While a national take on retirement income is still being sorted out, retirees can add protected lifetime income to their portfolios as an immediate solution to help avoid a retirement challenge for themselves.

<sup>1</sup> Bell, Felicitie C. and Miller, Michael L. "Life Tables for the United States Social Security Area 1900-2100." U.S. Social Security Administration, August 2005.