It’s All About Income

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Agenda

- Overview of Retirement Income Planning
- Developing a Retirement Income Plan
- Retirement Spending Patterns
- Sources of Retirement Income
- Risks in Retirement Income Planning
- Withdrawal (Spending) Strategies
- Role of Annuities in Retirement Income Planning

OVERVIEW OF
RETIREMENT INCOME PLANNING

What is Retirement Income Planning?

> It is a process—to convert a retirees' financial resources into a stream of income that will last the remainder of their lives.

- Running out of money--it's the number #1 reported fear among pre-retirees.[1]

> Two Phases of the Life Cycle of Financial (Wealth) Planning:

- Accumulation Phase
- Distribution Phase

> The mountain climbing analogy for retirement[2]

The Art of Mountain Climbing

The Changing Retirement Landscape

Retirement in the 20th Century

- A "single event" The Golden Years.
- Government and Employer were responsible for retirement income and health insurance for the retiree
- Short life expectancy

Retirement in the 21st Century

- "Mobile workforce"
- Responsibility of retirement income and health insurance shifted to the individual (YOYO planning).
- Phased-in retirement
- 30 – 40 years in retirement

"Six in 10 non-retirees with self-directed retirement savings expressed low levels of comfort in making investment decisions with their accounts."[1]

Source: [1] TCRS - 22nd Annual Transamerica Retirement Survey | TCRS (transamericacenter.org)

Facts About Retirement

- Pre-retirees feel particularly anxious about how they'll manage their income and spending needs once they move from the comfort of an on-going paycheck into retirement.[1]
  - 72% are worried about running out of money
  - 57% are overwhelmed by determining how much they can spend in retirement
  - 60% are worried about not getting—or the thought of getting –a regular paycheck in retirement
  - 64% are overwhelmed by not being able to maintain their current lifestyle or quality of life in retirement.
- Only 49% of workers have reported that they estimated how much income they would need each month in retirement[2]

https://401kspecialistmag.com/high-anxiety-pre-retirees-financially-stressed-about-impending-transition/ [2] Employee Benefit Research Institute 2022 Retirement Confidence Survey (page 3); https://www.ebri.org/docs/default-source/rcs/2022-rcs/rcs_22-fs-3_prep.pdf?sfvrsn=e5c83b2f_4

OVERVIEW OF RETIREMENT INCOME PLANNING

Assessing Retirement Income Needs

> 1st step in the retirement income process:
  - Assess the client's needs for income to meet their "lifestyle" needs.

> Methods used:
  - The Retirement Income Replacement Rate (Ratio) Method;
  - The Actual (Adjusting) Expense Methods

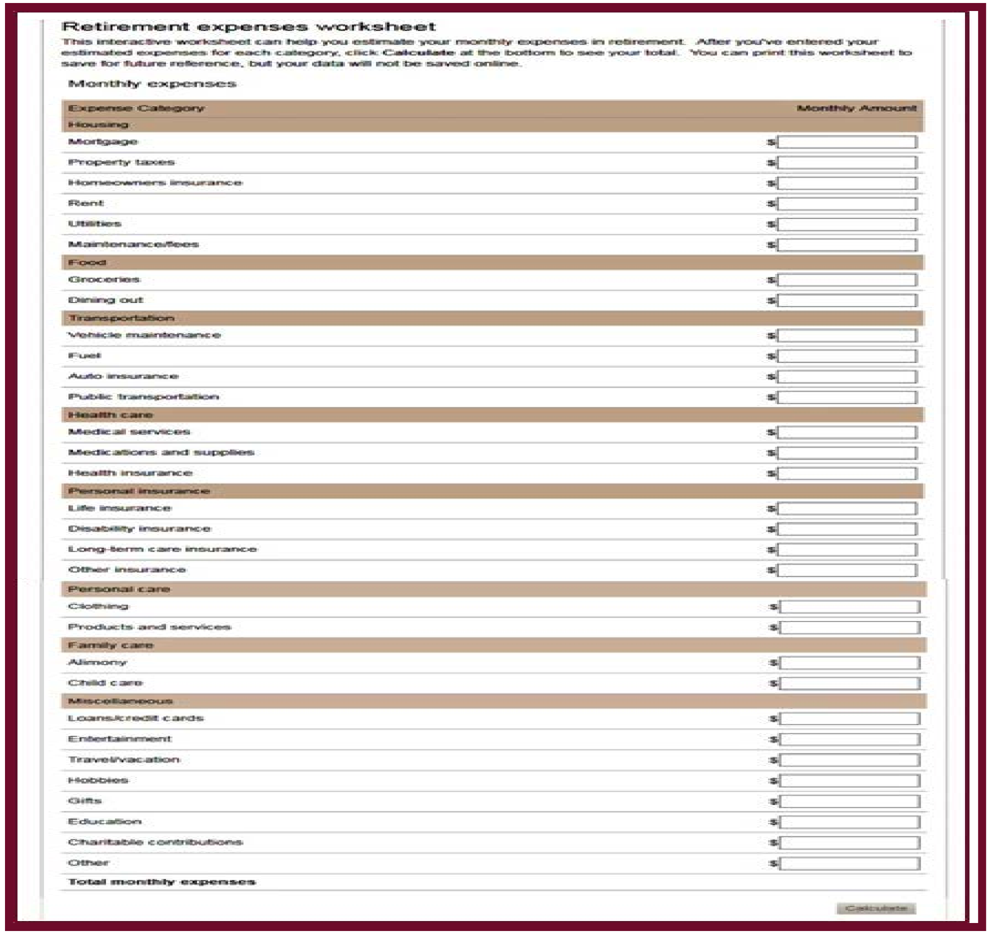
The Income Replacement Ratio Method

- The IRR method (AKA, “wage replacement method”) uses a person’s income after retirement divided by his or her gross income before retirement.
  - The average American needs between 75% and 85% of their pre-retirement income to maintain their lifestyle in retirement, based on assumptions that spending declines in retirement. The median recommended target replacement rate is 77%[1]
- The appeal of this approach is its simplicity. The problem with this approach is that it doesn’t account for the person’s specific situation.

https://www.gao.gov/assets/gao-16-242.pdf

Actual Expense: Single Budget Model

- Single Budget Model estimates the pre-retiree's anticipated "lifestyle" expenses:
  - Bottom-up Approach - a personalized and accurate spending estimates.
- Expense categories are combined into one "lifestyle expense." All expenses have the same priority.
  - No distinction between essential (basic) expenses and discretionary (optional) expenses.



Retirement expenses worksheet

This interactive worksheet can help you estimate your monthly expenses in retirement. After you've entered your estimated expenses for each category, click **Calculate** at the bottom to see your total. You can print this worksheet to save for future reference, but your data will not be saved online.

Monthly expenses

Expense Category	Monthly Amount
Housing	
Mortgage	$
Property taxes	$
Homeowners insurance	$
Rent	$
Utilities	$
Maintenance/fees	$
Food	
Groceries	$
Dining out	$
Transportation	
Vehicle maintenance	$
Fuel	$
Auto insurance	$
Public transportation	$
Health care	
Medical services	$
Medications and supplies	$
Health insurance	$
Personal insurance	
Life insurance	$
Disability insurance	$
Long-term care insurance	$
Other insurance	$
Personal care	
Clothing	$
Products and services	$
Family care	
Alimony	$
Child care	$
Miscellaneous	
Loans/credit cards	$
Entertainment	$
Travel/vacation	$
Hobbies	$
Gifts	$
Education	$
Charitable contributions	$
Other	$
Total monthly expenses	

Calculate

https://personal.vanguard.com/us/insights/retirement/tool/retirement-expense-worksheet

Actual Expense: Dual Budget Model

> A direct extension of the Bottom-up budget but a distinction is made between two budgets:
- Essential (Basic) Expenses -must have needs; and
- Discretionary (Optional) Expenses – the "wants."

> The difference between these two budgets is referred to as *Discretionary* spending.
- The retiree's spending in any year is assumed to fall within the range bounded by these two budgets

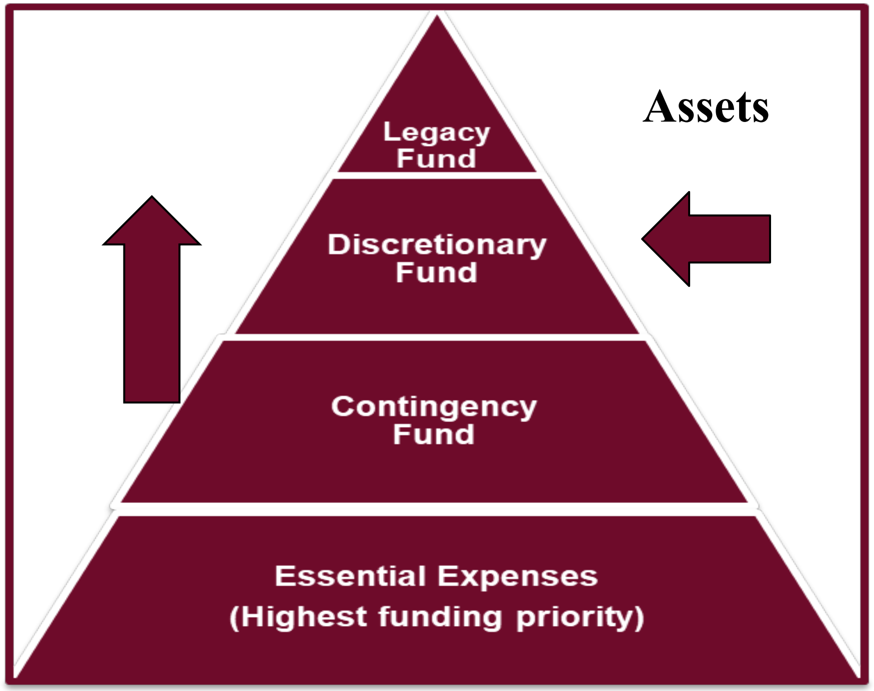
Write estimated retirement expenses in the appropriate column—either essential or discretionary		Essential	Discretionary
Housing	Mortgage/Rent/Condo Fees	$	$
	Property Taxes	$	$
	Homeowners' Insurance	$	$
	Household Maintenance	$	$
Food	At home (groceries, etc.)	$	$
	Dining out	$	$
Transportation	Vehicle Purchases or Lease Payments	$	$
	Auto Insurance & Taxes	$	$
	Fuel & Maintenance	$	$
	Public Transportation	$	$
Health Care & Insurance	Health Insurance	$	$
	Copays & Medical Services (those not covered by insurance)	$	$
	Medicare/Medigap Premiums & Expenses	$	$
	Drugs & Medical Supplies	$	$
	Dental, Hearing & Vision	$	$
	Life Insurance	$	$
	Long term Care Insurance	$	$
	Disability Insurance	$	$
Personal Care	Clothing	$	$
	Products & Services (haircuts, dry cleaning, etc.)	$	$
Other	Gifts/Charitable Contributions	$	$
	Entertainment/Recreation	$	$
	Travel/Hobbies	$	$
	Education	$	$
	Family care (parents, children, grandchildren)	$	$
	Income Taxes	$	$
	Other	$	$
	Subtotal	$	$
Total Essential & Discretionary Monthly Expenses		$	$

Modern Retirement Theory*

> Assumes all assets on an individual's retirement balance sheet should be used for their definitional highest and best purpose (Funding Priority):[1]

- Balance Sheet: Financial Capital, Social Contract, and Human Capital
- Assets match liabilities and Income matches Expenses.
- The 3S Model:
  - **Secure (Safe)** – income must offer guarantee of some sort, or a back-stop protection;
  - **Stable** – income must not fluctuate; and
  - **Sustainable** – Income must be for lifetime(s)

Hierarchy of Funds



"Retirement is a consumption and preservation phase of life rather than an accumulation phase."

Source: [1]Jason K. Branning and M. Gray Grubbs (2009) https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3419038

RETIREMENT SPENDING PATTERNS

Constant (Real) Spending Patterns

> The simplest and most traditional approach to retirement spending, is to pick a constant fixed (inflation-adjusted) WR to use throughout retirement (e.g., Bill Bengen's 4% rule).

> Advantages:
  - Regularity and constant spending power (no spending drops).

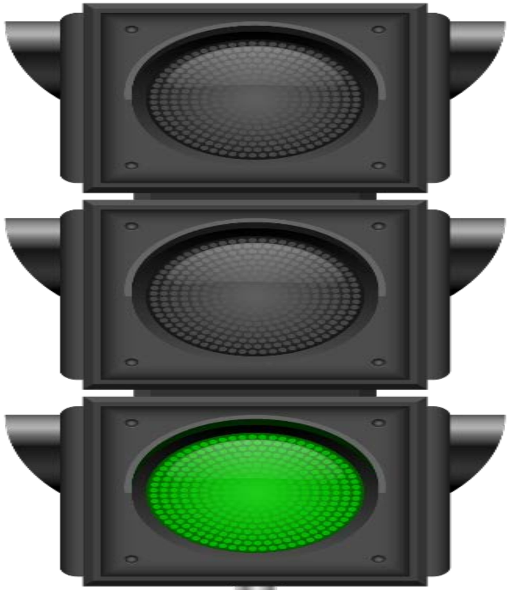
> Disadvantages:
  - The fixed spending strategies can leave a lot of unused assets, it can also leave a retiree more exposed to failure--increases sequence of return risk (SOR).

> While the constant real spending strategy is widely used, it doesn't correspond to the typical spending patterns exhibited by retirees.

Phases of Retirement*

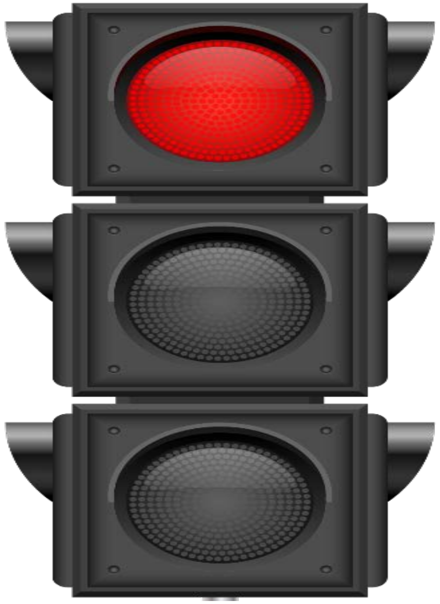
Michael Stein's, "The Prosperous Retirement: The Guide to the New Reality. The Three Phases of Retirement

Go-Go Years
Ages 65 – 74



Slow-Go Years
Ages 75 – 84

No-Go Years
Ages 85+



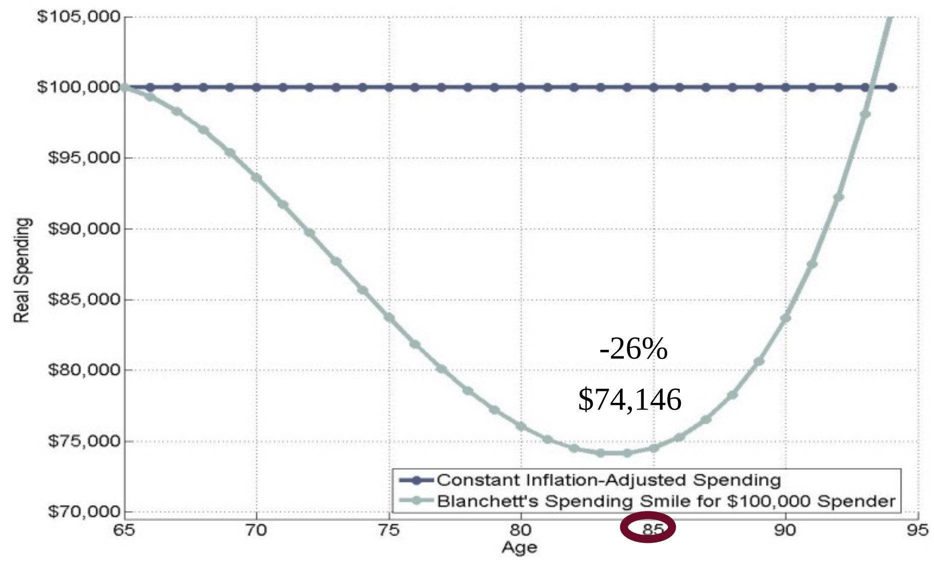
Reality Retirement Planning

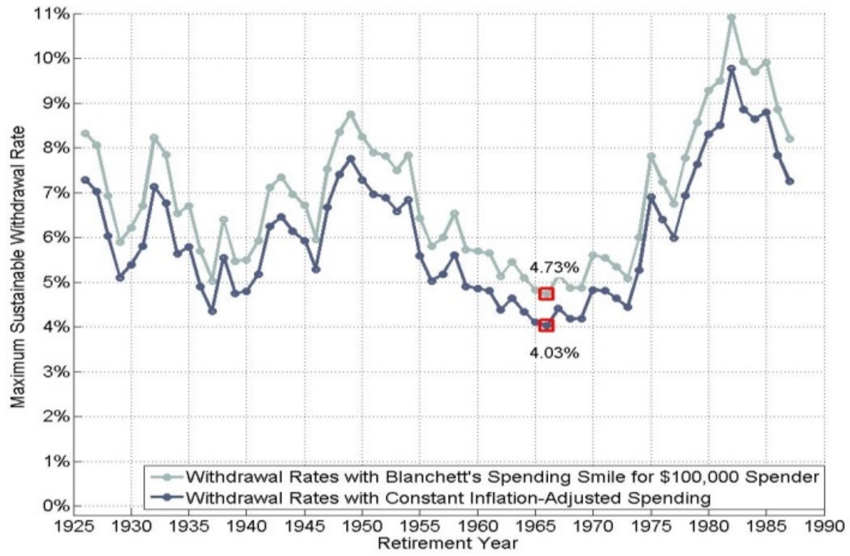
Average Annual Expenditures for Different Age Group, 2022			
Expenses	**55-64**	**65-74**	**75+**
Housing	$24,140	$21,094	$19,317
Transportation	$13,956	$9,550	$6,209
Food	$9,791	$8,198	$6,020
Health care	$6,699	$7,422	$7,708
Apparel and services	$1,830	$1,357	$801
Entertainment	$3,698	$3,182	$1,943
Cash Contributions	$3,089	$2,811	$4,443
Personal Insurance & Pensions	$10,329	$5,057	$2,196
Other[1]	$4,547	$2,173	$4,844
Total Annual Expenditures	$78,079	$60,844	$53,481

Table 1300. Age of reference person: Annual expenditure means, shares, standard errors, and relative standard errors, Consumer Expenditure Surveys, 2022 PDF (bls.gov) September 2023 https://www.bls.gov/cex/tables/calendar-year/mean-item-share-average-standard-error/reference-person-age-ranges-2022.pdf

Blanchett’s Retirement Spending Smile

Understanding the Path of Real Retirement Spending by Age





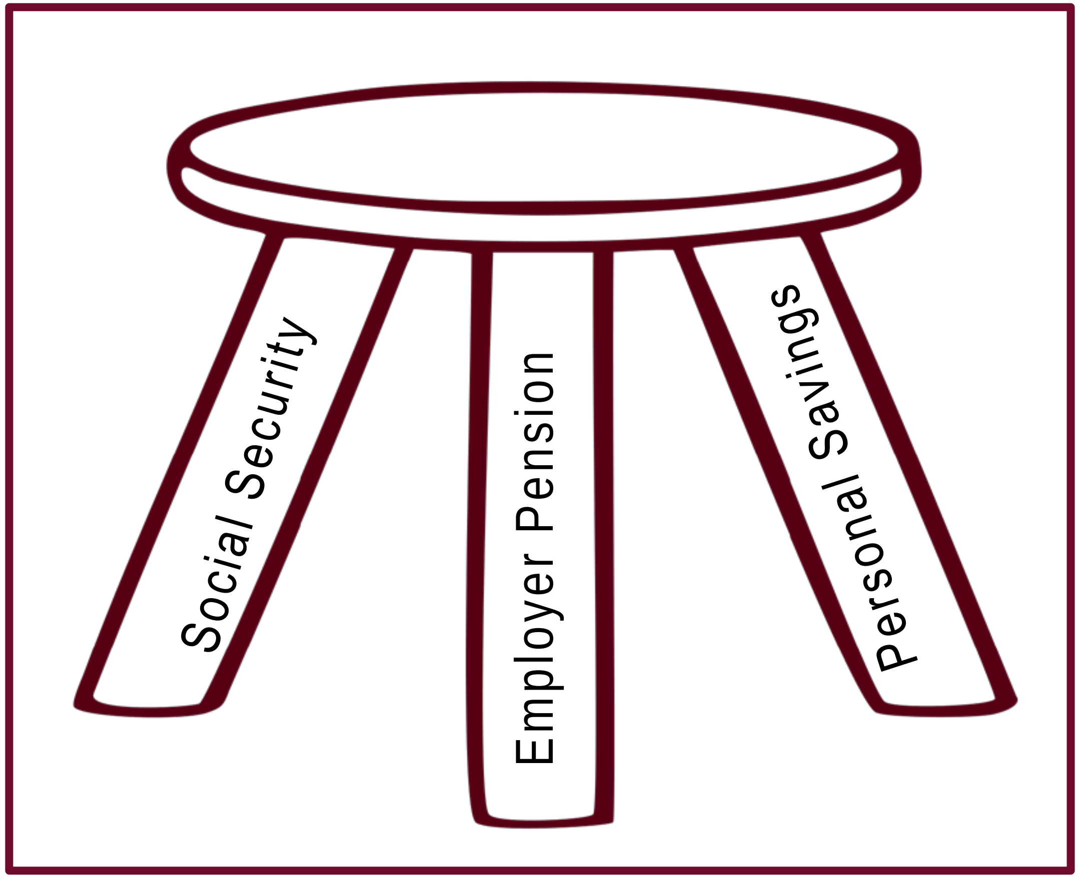
“The assumption of constant inflation-adjusted spending, according to Blanchett’s article, will lead individuals to over save for retirement.”

Exploring the Retirement Consumption Puzzle | Financial Planning Association.

SOURCES OF RETIREMENT INCOME

Sources of Retirement Income

- The Three-Legged Stool
  - Social Security
  - Company Pensions
  - Personal Savings
- Four-Legged Stool
  - Working In Retirement
  - Life Insurance / Annuities
  - Home Equity



Social Security

- The #1 Federal entitlement program.
  - Nine out of 10 (90%) people age-65 and older receive Social Security benefits. Provides up to 40% of an average retiree's retirement income. And provides 30% of the income of the elderly.[1]
- To be eligible for benefits must have earned at least 40 credits (10 years). SSTWB is $160,200 in 2023.
  - Age 62 the earliest to elect to receive benefits (permanent reduction); FRA 100% of PIA. Delay to age 70, PIA benefit increased with 8% simple DRC (76%).
- A worker's record can also be used to support spousal, dependent, ex-spouse, and survivor benefits
  - Spousal benefit at FRA equal to 50% of the primary earner's benefit; Survivor benefits are 100% of the deceased's PIA at FRA.

www.ssa.gov/news/press/factsheets/basicfact-alt.pdf

Employer Sponsored Retirement Plans

> The percentage of private sector workers who have access to a ESRP is 69% with a participation rate (PR) of 52% and a take-up rate of 75%.[1]
- DB Plan: Access to a DB Plan is 15% with a participation rate of 11% and take up rate of 74%;
- DC Plan: Access to a DC Plan is 66% with a participation rate of 48% and a take-up rate of 73[2]

> 401(k) hold the largest share of DC plan assets,
- $6.6 trillion, at the end of the 4th Quarter of 2022 (71% of total DC assets ($9.3 trillion) and 20% of all retirement assets ($33.6 trillion).[3]

> Employer Sponsored IRAs
- SEP IRA- IRC § 408(k) - ER contributions only (No catch-up contribution). $66,000 in 2023)
- SIMPLE - IRA § 408(p) - < 100 EEs earning $5,000. Both employee and employer contributions ($15,500/$3,500 in 2023)

https://www.bls.gov/news.release/ebs2.t01.htm; [3]Release: Quarterly Retirement Market Data, Fourth Quarter 2022 | Investment Company Institute (ici.org)

IRAs

> IRAs are the #1 retirement asset.

- As of 4th Quarter of 2022, assets were $11.5 trillion, accounting for 34% of all retirement assets ($33.6 trillion)[1]
- In mid-2022, 55 million, or 41.9% of U.S. households reported they owned an IRA.[2]

> Traditional IRA [IRC § 408] and Roth IRA [IRC § 408A] contributions:

- Generally, April 15th of following tax year (does not include extensions).

> Growth of IRA assets have predominately been due to rollovers from DC plans.

IRA Rollovers[3]

Year	# of Taxpayers (m)	Rollover Amounts
2020	5.3	$623.0
2019	5.0	$565.0
2018	4.9	$533.8
2017	4.7	$478.0
2016	4.8	$444.7
2015	5.0	$472.6
2014	4.9	$434.8
2013	4.7	$404.0
2012	4.4	$344.0
2011	4.2	$305.3
2010	4.3	$299.7

Release: Quarterly Retirement Market Data, Fourth Quarter 2022 | Investment Company Institute (ici.org) March 16, 2023; [2] The Role of IRAs in US Households' Saving for Retirement, 2022 (ici.org) February 2023; [3]IRS Statistics of Income (SOI)Age of Taxpayer May 14, 2021; https://www.irs.gov/statistics/soi-tax-stats-accumulation-and-distribution-of-individual-retirement-arrangements 19in04ira.xlsx (live.com)

Retirement Plan Contribution Limits

	2023	2022
Elective Deferrals: IRC § 402(g)(1)	$22,500	$20,500
Catch-Up (age 50) Contributions:RC § 414(v)(2)(B)(i)	$7,500	$6,500
Profit Sharing, SEP IRAs Employer Contributions	$66,000	$61,000
DB Dollar Limit:IRC § 415(b)(1)(A)	$265,000	$245,000
SIMPLE IRA Elective Deferrals: IRC § 408(p)	$15,500	$14,000
SIMPLE IRA: Catch-Up Contributions	$3,500	$3,000
SEP Minimum Compensation Limit: IRC § 408 (k)	$750	$650
Compensation Limit: IRC § 401(a)(17)	$330,000	$305,000
Key Employee Officer: IRC § 416(i)(1)((A)(i)	$215,000	$200,000
Highly Compensated Employee: IRC § 414(q)(1)(B)	$150,000	$135,000
Traditional IRA: IRC § 408 / Roth IRA: IRC § 408A	$6,500	$6,000
IRA Catch-Up for IRAs	$1,000	$1,000

Working In Retirement

- Nearly six in 10 women and men plan to work after they retire (both 58%) on a full time (20%, 23%) or part-time basis (38%, 35%).[1]
- While many workers believe they can continue to work beyond age 65, in many cases that is not possible.
    - Reasons for early retirement: Health problems/disability, job related changes, and family transitions[2] Nearly 2 million older workers have left the labor force due to the pandemic.[3]
- The latest data, from the U.S. Census Bureau, the average retirement age is 64. For men aged 65 and women age 63[4]

https://www.ebri.org/docs/default-source/rcs/2022-rcs/rcs_22-fs-3_prep.pdf?sfvrsn=e5c83b2f_4 [3]AARP, https://ww.aarp.org/work/careers/pandemic-workers-early-retirement/ [4] Center for Retirement Research at Boston College. "What Explains the Widening Gap in Retirement Ages by Education?"

Home Equity

- For most retirees, home equity is the largest asset they bring into retirement, even after subtracting mortgage debt
  - 55 percent of net worth of Americans age 62+ tied up in Home Equity[1]
- Strategic use of Home Equity = Reverse Mortgage
  - A RM is a type of mortgage for those who are age 62 or older. Most RMs are Home Equity Conversion Mortgages (HECM) insured by FHA.
    - The average home value for HECM borrowers (called the Maximum Claim Amount (MCA) is $1,072,500 in 2023. 60% limit on the amount to borrow in the first year[2]
  - RMs can be accessed tax-free as a lump sum, as monthly income, or as a standby line of credit (Contingency Fund).
  - Repayments are deferred until after the borrower has permanently left the home.

https://www.hud.gov/program_offices/housing/sfh/hecm/hecmabou

RETIREMENT INCOME RISK FACTORS

Longevity Risk

> Most significant factor in retirement planning and the hardest to gauge. It is the most critical risk to guard against—it is the multiplier of all other risks.

> How long will a retirement plan need to generate income?

- Life Expectancy (LE): 50% of the population will outlive their statistical LE. LE at birth for males is 75.4 years and females 80.4 years.[1]
- Life Probability: According to SSA, the additional life expectancy for a male age 65 in 2023 is 19 years (age 84) and a woman aged 65 is 22 years (age 87).[2]

> Plan on the probability of living much longer, perhaps 30 + years in retirement.

- For the average 65-year-old couple there is a 49% chance that one spouse will live to age 90 and 20% chance one spouse will live to age 95.[3]

National Vital Statistics Reports Volume 71, Number 2 August 23, 2022 (cdc.gov) ; [2] Retirement & Survivors Benefits: Life Expectancy Calculator (ssa.gov); [3]Guide to Retirement | J.P. Morgan Asset Management (jpmorgan.com)

Market Risk

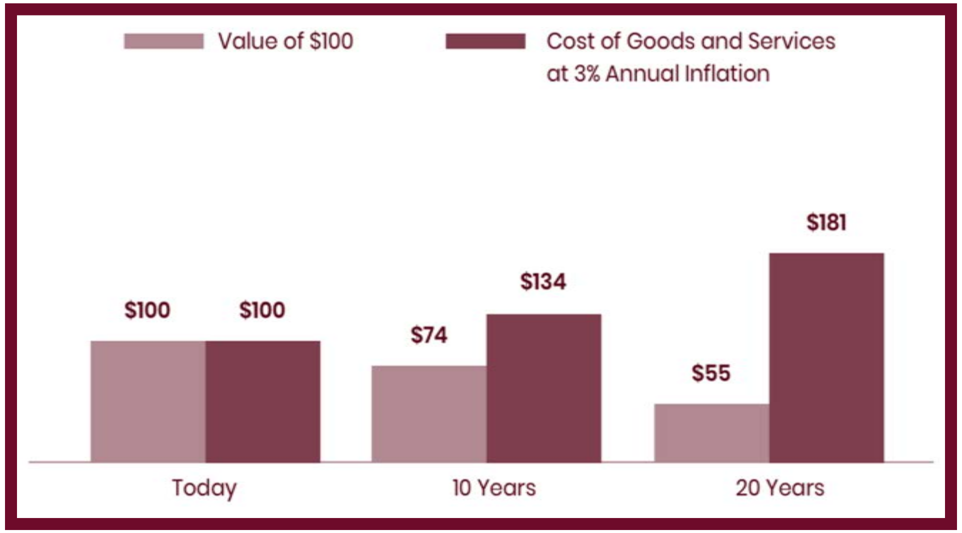
- Exposure to loss - you have a lower-than-expected rate of return and possibly lose money in your investments (volatility)
  - Avoid market losses during the “fragile decade”, the five years before retirement and the five years after retirement.[1]
  - Sequence of Return Risk (SOR) can have a negative and a lasting impact on client portfolios and threaten the ability to make retirement savings last.
- Mathematics of Loss: Each time you make a withdrawal after a loss, you create a permanent loss in the portfolio.
  - Subsequently, you need to recover from the initial losses, as well as from these permanent losses. Wall Street defines as: “Feeding the bear”. If the portfolio declines by 20% you need to return 25%, a 30% loss requires 43% return
- Recovery in a distribution portfolio is a lot harder – if not impossible- than in an accumulation portfolio.

https://www.prudential.com/media/system/cda/rrz/downloads/Retirement-Red-Zone-Overview.pdf

Inflation Risk

- Inflation creates an increased income demand for the remainder of a retiree's life (worst in later years of retirement).
  - Affects buying power of retirement income
- The past decade (2012 – 2022) the average annual inflation rate (CPI-U) was 2.50%[1]
- Assets will have to continue to grow or be forced to reduce consumption

The Effects of Inflation on Retirement Savings



At an average inflation rate of 3%, the cost of living would double every 24 years. A retiree's annual income will need to increase each year even during retirement in order to keep up with the gradual rise in prices of everyday goods.

Current US Inflation Rates: 2000-2023 | US Inflation Calculator

Tax Rate Risk

> Taxes can be the single largest expense in retirement

- A tax-efficient Withdrawal Strategy can add up to 1.1% --on a retired investor's return, with no additional risk.[1]

> Asset Location – The Three Buckets (Taxable/Tax-deferred/Tax-free):

- "Don't put all of your eggs in one basket." (Warren Buffet)

> Retirement Withdrawal Strategy[2]:

- Conventional Wisdom: Taxable/Tax-deferred/Tax-Free. Produces a "tax bump " midway in retirement
- A tax-efficient strategy: Take an annual withdrawal from every account based on that account's % of overall savings (reduces taxes by 40%)

> Roth IRA Conversions early in retirement can reduce RMDs later and improve tax diversification[3] Maximize the use of marginal tax brackets (Partial Roth IRA conversions).

Putting a value on your value: Quantifying Advisor's Alpha (vanguard.com) ; [2] Fidelity Savvy tax withdrawals | [3] How to Make Your Retirement Account Withdrawals Work Best for You (troweprice.com)

Health Care and LTC Risks

- Majority of adults (74%) one of their biggest fears in retirement is health care costs going out of control and 64% are terrified of what health care costs will do to their retirement plans.[1]
- Medicare is the primary health care for people age-65 and older. Medicare covers only 64% of health care costs.[2][2]
  - The cost of health care for a 65-year-old American couple retiring this year rose to $315,000 (after tax). Plan on factoring 15% of retirement expenses to health care expenses. Does not include LTC costs[3]
- 70% of consumers over the age of 65 will need some type of Long-Term Services and Support (LTSS) at some point in their life.[4]
  - $297/day for a private room in a nursing home; $260/day for a semi-private room; $148/day, for care in an assisted living facility; $27/hour for a home health aide; $78/day for services in an adult day health care center[5]
- Fewer than 17% of pre-retirees over the age of 50 have attempted to forecast how much they may need to cover healthcare or LTC expenses in retirement.[6][6]

Health Care Survey – Nationwide; [2] Projected Savings Medicare Beneficiaries Need for Health Expenses Spike in 2021 (ebri.org);[3] How to plan for rising health care costs | Fidelity; [4] Nearly 70% of seniors over 65 will need long term care at some point. - American Senior Alliance ; [5] Cost of Long Term Care by State | Cost of Care Report | Genworth [6] Retirement Confidence Survey (ebri.org)

Declining Cognitive Abilities Risk

- A retirement income plan must take into account that a retiree will experience declining cognitive abilities, hampering portfolio management and other financial decision making.
- According to Harvard Professor David Laibson[1], there are two categories of intelligence that are critical to investing:
  - Fluid intelligence (FI) – the creative ability to analyze new information and solve novel problems (IQ questions).
  - Crystallized intelligence (CI) – the ability, through life experience, to accumulate knowledge that helps us solve familiar problems and become better investors.
- After age 50, the decline in FI becomes the dominant force in our ability to make sophisticated decisions declines:
  - 50% of the 80-year-old population would have difficulty making complicated financial decisions."

IB_15-1-508.pdf (bc.edu)

WITHDRAWAL STRATEGIES

Withdrawal Strategies

- The FPA divides withdrawal strategies into three main categories:
  - Systematic Withdrawal Plan Strategy (SWP)
  - Time-Based Segmentation Strategy (The Bucket Strategy)
  - Floor and Upside Strategy (Essential vs. Discretionary)
- The Withdrawal Rate (WR) is the most important contributor to portfolio longevity.[1]

Systematic Withdrawal Plan Strategy

- SWP strategy is designed for the retiree to take pre-determined periodic withdrawals from a portfolio of stocks, bonds, mutual funds, or target-date funds (Total Return Strategy).
  - The SWP, which is the most common method used by advisors, uses a sustainable withdrawal rate (SWR) with no probability of depletion to draw down a retiree's financial wealth during their retirement.
- The retiree's balance sheet and income needs don't enter into the calculation.
- Three broad categories
  - Constant spending inflation-adjusted strategy - Bengen's "4% Safemax rule"(exposes retiree to the most SOR risk)
  - Constant fixed percentage strategy (eliminates SOR risk)
  - Variable (Dynamic) Spending Strategies (flexibility)

Variable (Dynamic) Withdrawal Strategies*

- Bengen's Floor-and-Ceiling Withdrawals
  - Ceiling is 20% higher than IWR (4.80%) and floor is 15% less than IWR (3.40%)
- Guyton's and Klinger's Decision Rules – the most popular guardrail strategy[2]:
  - Withdrawal Rule (20%);
  - Capital Preservation Rule (20/10)
  - Prosperity Rule (20/10); and
  - Portfolio Management Rule.
- RMD Spending Rules
  - Base withdrawals on the IRS RMD rules
  - Protects clients concerned of running out of money in later years of retirement.

"Spending Guardrails"

Making Sense Out of Variable Spending Strategies for Retirees | Financial Planning Association [2]Guyton and Klinger 08-06_WebsiteArticle.pdf (cornerstonewealthadvisors.com); [3]Viability of the Spend Safely in Retirement Strategy (soa.org)

Time-Based Segmentation (TBS)

- Segment assets into different “buckets” that are aligned to fund different periods of retirement—bringing a chronological consideration to when each asset class gets utilized. A way to help manage SOR.
  - Fixed-income assets are held to maturity to guarantee upcoming retiree expenses over the short and medium term; and a growth portfolio is also built with more volatile assets having higher expected returns and losses, to be deployed to cover expenses in the more distant future.
- Behavioral aspects of TBS appeals to retirees who:
  - Reject a more aggressive total-returns investing approach;
  - Comfortable with a more aggressive allocation coupled with bond ladder; and
  - Have discipline to accept dynamic asset allocation and to follow the rule on when to extend the ladder (in an effort to avoid locking in sequence risk).

The Bucket Strategy*

1 – 5 years

Bucket 1
Cash Flow

6 – 10 years

Bucket 2
Accumulation Annuity

10 + years

Bucket 3
Income Annuity

Principal Protected Income

Principal Protected Growth

Guanranteed Lifetime Income
Long-Term Growth

Lowest Risk

Highest Risk

* The Bucket Strategy originally conceived by Harold Evensky, “*Evensky & Katz Cash Flow Reserve Strategy,*” Retirement Income Redesigned: Master Plans of Distribution (2006; Bloomberg Press. Keep in mind that all investments carry a certain amount of risk including possible loss of the principal amount invested. No investment strategy, including diversification and asset

The Floor and Upside Strategy

> Starts with the retiree's balance sheet and their lifestyle needs (Modern Retirement Theory). Sometimes referred to as the “actuarial approach”

- The Floor (“safety net”) - match essential expenses with guaranteed sources of income. This is the critical difference between the other strategies
- The Upside - match discretionary (aspirational) expenses with growth portfolio.

> Two views of Flooring:

- Goals-based approach – essential spending needs locked in with funding from safe, secure, and sustainable investments (3S’s)
- Investment based (engineering view of flooring) approach – the amount of flooring from financial capital under current market conditions

ROLE OF ANNUITIES IN RETIREMENT INCOME PLANNING

Role of Annuities*

- Provides a guaranteed* stream of income.
  - The only financial product that combines both an accumulation phase and distribution phase in one product.
- Shift a portion of the market risk and longevity risk to the insurance company.

"82% of pre-retirees express the desire to have more guaranteed income in retirement than they have or expect to have[1]

Source:[1] New Survey Finds Americans Want Even More Guaranteed Income in Retirement (prnewswire.com)

SPIA

- The Single Premium Immediate Annuity (SPIA) provides a stream of income based on life of the annuitant (measuring life). Generally, makes first payment 30 days after purchase.
  - Fixed, Variable, or Combination (fixed and variable)
- Key Benefit: The Mortality Credit
  - Transfer income from individuals with shorter than expected life spans to those with longer life spans (mortality credits/risk pooling)
- Both the market risk and longevity risk are mitigated

Deferred Income Annuity (DIA)

- DIAs, commonly referred to as longevity insurance, provides guaranteed* income for life like a SPIA, but unlike a SPIA, the benefit payments for DIAs do not begin until some future point in time (2-40 years). "Hybrid SPIAs"
  - The income guarantee* is unaffected by fluctuations in market interest rates. And like a SPIA, the contractually guaranteed rate of the DIA is based on current mortality tables and rates.
  - The insurer can offer the guarantee* because the date of annuitization is known in advance. DIAs offer significantly higher payouts than SPIAs.
- DIAs may also represent a more palatable hedge against longevity risk because the effective cost of the insurance is lower.

Qualified Longevity Annuity Contracts

> QLAC is a form of DIA, that can be purchased inside an IRA and 401(k) plan.

> QLAC Rules:

- Maximum purchase $200,000 in 2023, Must be a fixed annuity (not a Fixed Index Annuity nor a Variable Annuity). 90-day free-look period[2]
- Income Start Date: One-month past participant's birth month at age 85.
- Income Payments: Single Life; Joint life, either life income or life income with cash refund and return of deposit death benefit is allowed before and after income commencement date, however amount cannot be more than deposit.
- Additional Riders: Cost-of-living adjustments that are constant (1% to 5% increase) or by an index such as the CPI-U inflation index.

www.irs.gov/pub/irs-drop/n-20-79.pdf;   [2]SECURE 2.0 Act, Section 202, repealed the 25% limit and increased contribution limit to $200,000 (indexed with inflation), effective in 2023. Provides for 90-free look period

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