



RETIREMENT

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Guaranteed Lifetime Income: A Case for Growth

Fueled by demographic, regulatory, technological, and economic trends, the demand for guaranteed lifetime income is growing. In particular, there is an increasing market appeal for the long under-appreciated single-premium immediate annuity (SPIA) and its more recent manifestation, the deferred income annuity (DIA). And while headwinds persist, market dynamics are converging to bolster the category.

Demographics

- While there are more people alive today over age 70 than ever before, that number will grow three-fold over the next 18 years (when the last Boomer turns 70 in 2034).
- There is dramatic growth in retirees now personally responsible for managing conversion of their lifetime savings into a predictable source of income. This is also complicated by the fact that income must last over an uncertain retirement time horizon.
- While incidence of attaining extreme advanced age is increasing, it remains a low-probability, high-consequence event — creating the perfect scenario for risk-pooled solutions.

Regulation

- While the U.S. tax code hasn't fully kept up with the pace of product innovations, introduction of the qualified longevity annuity contract (QLAC) proved a government endorsement of the product design. This has expanded awareness and, with it, market demand.

Technology

- Technology-enabled product allocation platforms and decision support tools have increasingly displaced all-or-nothing thinking around annuitizing versus not annuitizing. Instead, product-bundling platforms facilitate a more relevant “how much to annuitize” or “how much to insure” framework.

As I mentioned, however, there are also some headwinds to face. The first relates to compensation. Traditional advisor practice models either compensate advisors at point-of-sale via commission or an assets under management (AUM) fee. Both models are a mismatch with conversion of assets to a lifetime income stream. While some manufacturers have devised methods for assigning an income value surrogate to traditional asset values, traction among distributors has been disappointing. The impending DOL fiduciary rule may prove a tipping point to overcome this resistance.

The second challenge is that real, dramatic growth continues to be stymied by historically low interest rates. More precisely, it is stymied by the *longstanding expectations that rates will rise*. As long as people think rates will be higher next year, bringing the future cost of income down, they are inclined to delay income purchase. This is driven by the fear that they may be “locking in” at historic low rates.

Going forward, here are some recommended strategies to consider:

- **Incorporate insurance-based guarantees in retirement income planning.** Our research clearly

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reflects differing preferences for guaranteed lifetime income across market segments. However, industry experience shows that election of annuitized income is still influenced more by market supply and promotion than by market segment demand. I assume that many more retirees would elect annuitized income if presented the option.

- **Build annuitized income into product planning processes.** Even while the institutional retirement markets begin to slowly increase the availability of annuitized payouts, today it is still predominantly an all-or-nothing proposition. For many retirees, a mixture of “lifetime annuitized income” alongside “ad-hoc discretionary withdrawals” from retirement savings may be optimal. This may prove the most common, defensible rationale for a rollover to retail product options to be in a client’s best interests.
- **Promote the benefit of “peace of mind” to pre-retirees and retirees.** This comes from dedicating some portion of savings to ensure a floor of retirement income. The strength of a combined industry voice can generate increased market demand — because the market can’t demand what only a few know exists.

With this perspective and the new backdrop the DOL rule provides, the coming months will prove interesting to watch in the guaranteed lifetime income category. 🌐

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