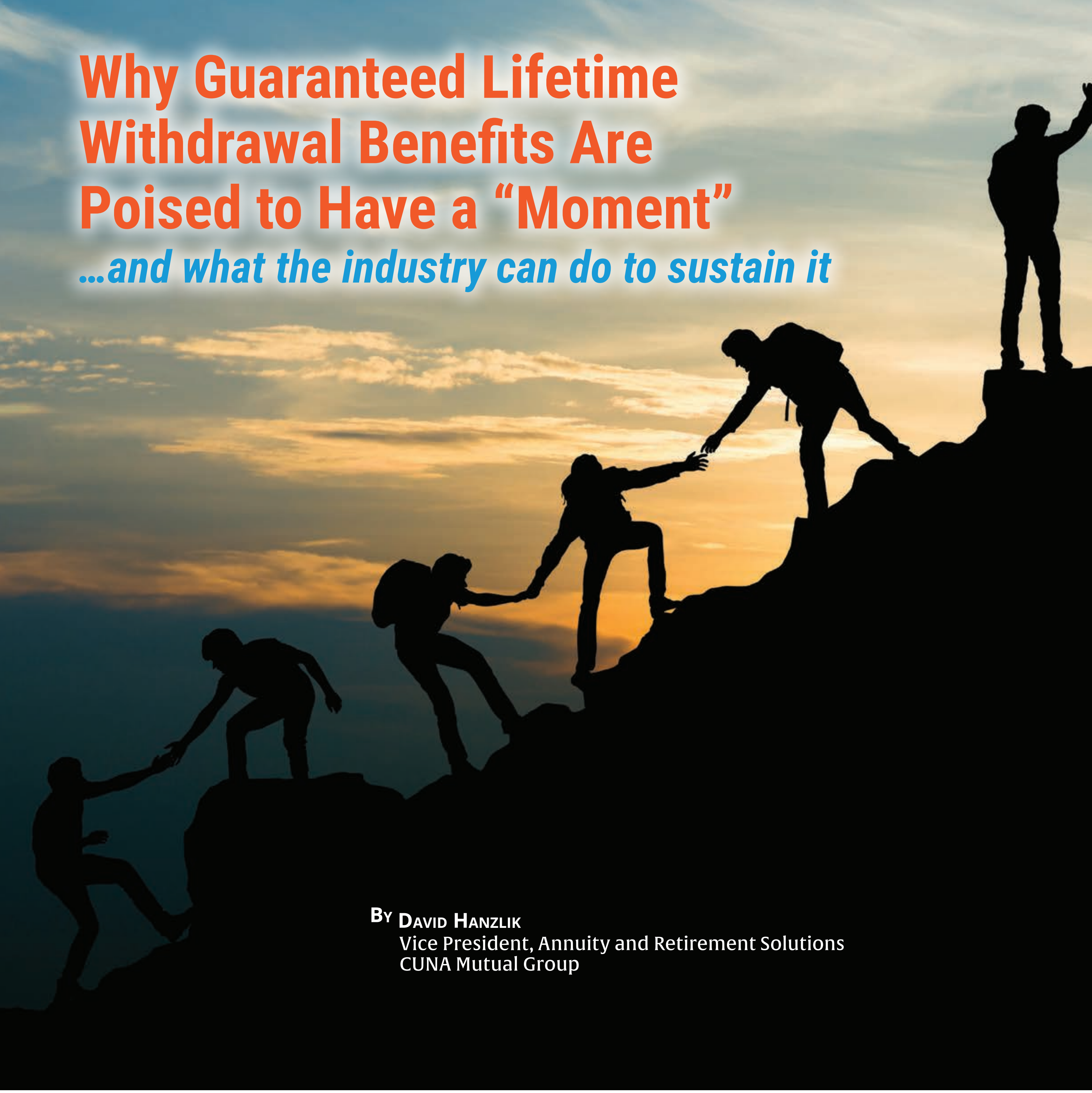
# Why Guaranteed Lifetime Withdrawal Benefits Are Poised to Have a "Moment"

## *…and what the industry can do to sustain it*



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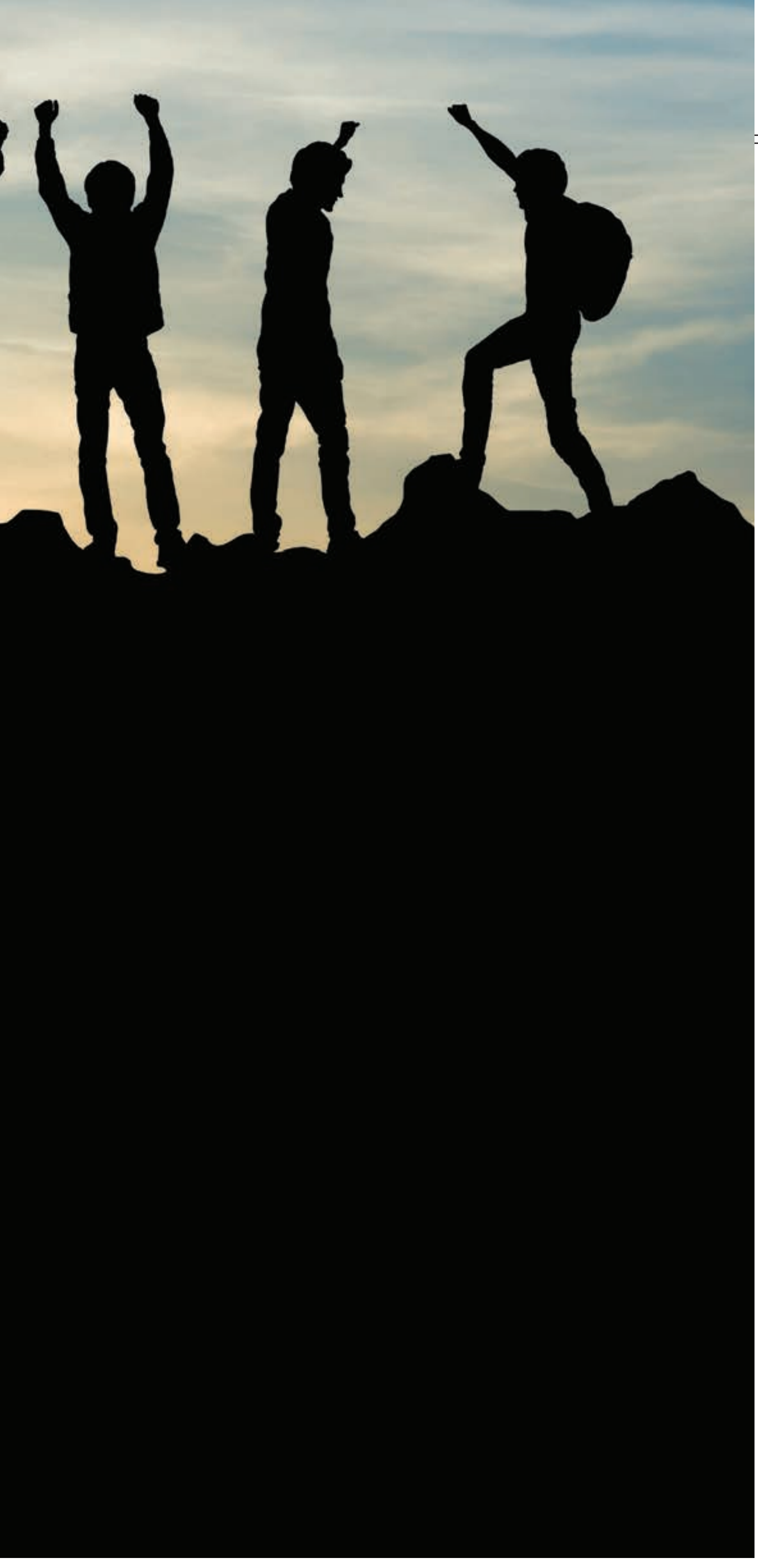
Insurance products that guarantee income for life without annuitizing should be about to experience their proverbial 15 minutes of fame. As Baby Boomers confront the transition from wealth accumulation to distribution—without the same traditional protections their predecessors enjoyed and do so right into the teeth of a bond market where yields are near historic lows—they are naturally turning their attention to retirement savings solutions that can provide income. Many are giving products that include guaranteed lifetime withdrawal benefits (GLWB) a look. My firm launched our version in August, and it may be instructive to examine the context of that decision and discuss what the insurance industry can do better to foster growth and understanding of the sometimes-maligned GLWB.



over the last three years Americans' lifespans have, sadly, shown declines for the first time in generations (Table 1). But those headline figures about longevity declines are attributable to factors such as opioid addiction, suicide, and a rise in liver disease possibly related to increased alcohol use.

None of those factors are peculiar to older Americans, whose lifespans appear to be following the longer-term trend of increased longevity due to healthier diets and advances in healthcare.

### Table 1

**Remaining Life Expectancy at Age 65[1]**

| Year | Male | Female |
|---|---|---|
| 1950 | 12.8 | 15 |
| 1960 | 12.8 | 15.8 |
| 1970 | 13.1 | 17 |
| 1980 | 14.1 | 18.3 |
| 1990 | 15.1 | 18.9 |
| 2000 | 16 | 19 |
| 2010 | 17.7 | 20.3 |
| 2017 | 18 | 20.6 |

## The Demographic Context for GLWBs

The demographic argument for GLWBs is well-documented and well-known in our industry. Some 10,000 Boomers retire every day.[2] That's more than 3.5 million people per year who will need to find a new income stream to replace their regular paycheck.

Moreover, life expectancies for those 10,000 newly minted retirees per day are higher than ever. To be sure,

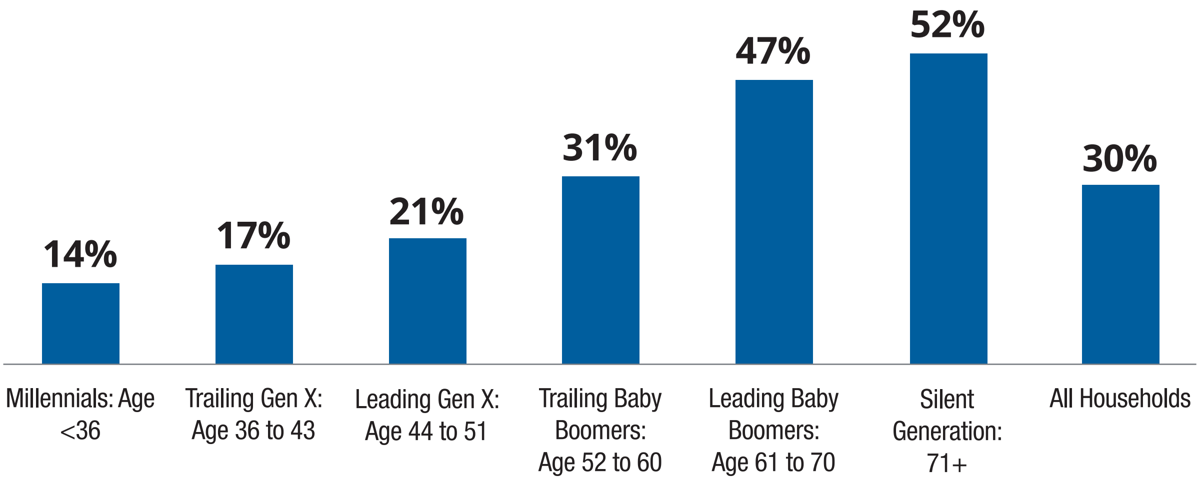
## The Pension Savings Context

Even as Boomers and the Gen X cohort coming up right behind them are generally living longer, it's no secret that their access to the secure lifetime retirement plan benefits enjoyed by many in preceding generations is fading. More than half of Americans born before the end of World War II had access to a defined benefit pension, while fewer than 1 in 3 "Trailing Boomers" (those Boomers born after 1956) have access to one.[3] The picture is worse for Gen X and after.

Couple that with the damage wrought on their self-directed tax-exempt retirement portfolios (not to mention their psyches) by the Great Recession of 2008, and it's understandable that Americans are nervous about running out of money in retirement.

## Figure 1

### Households With Access to DB Pension by Generation




*Source: LIMRA Secure Retirement Institute analysis of the* 2016 Survey of Consumer Finances, *Federal Reserve Board, 2017.*
*Age is the age of head of household in 2016. Percent of households having access to DB plan denotes either survey respondent or spouse a) has DB pension at current job; b) had accrued a DB pension benefit from a former job but has not yet claimed benefits; or c) is currently receiving benefits from DB pension.*

### The Economic Context

For us, every bit as important as the demographic and pension-related arguments for GLWB products was the investment case. For retirement portfolios, the alternative sources of growth and income simply are not as appealing as they once were. It's instructive in this regard to consider research from the pension consultants at Callan who modeled what sort of asset allocation was needed to achieve an expected 7.5 percent return in 1989, 2004, and 2019, and what the associated standard deviation was.[4]

The research found that investors looking for 7.5 percent per annum would have to dramatically shift from an all cash-and-bond portfolio in 1989 to a much larger allocation to equity and alternatives to hit that goal today. The resulting allocations can be seen in the charts, but the bottom line is this: Investors must assume nearly six times the risk today to achieve the same expected returns seen 30 years ago. That's a shaky foundation on which to build a retirement.

With this backdrop of an aging population that's living longer and has increasingly risky capital markets investment choices if they want to meet their retirement goals, guaranteed income products are a no-brainer.

Annuities with GLWBs obviously are not the only insurance products that pay out for an investor's entire lifetime, but several features make them appealing, including account balance/guaranteed income upside potential and the ability for investors (or their heirs) to withdraw the remaining balance at any time, if needed.

This last feature overcomes one of the most challenging hurdles for the industry: investors' fear of irrevocably surrendering their savings to an insurance company.

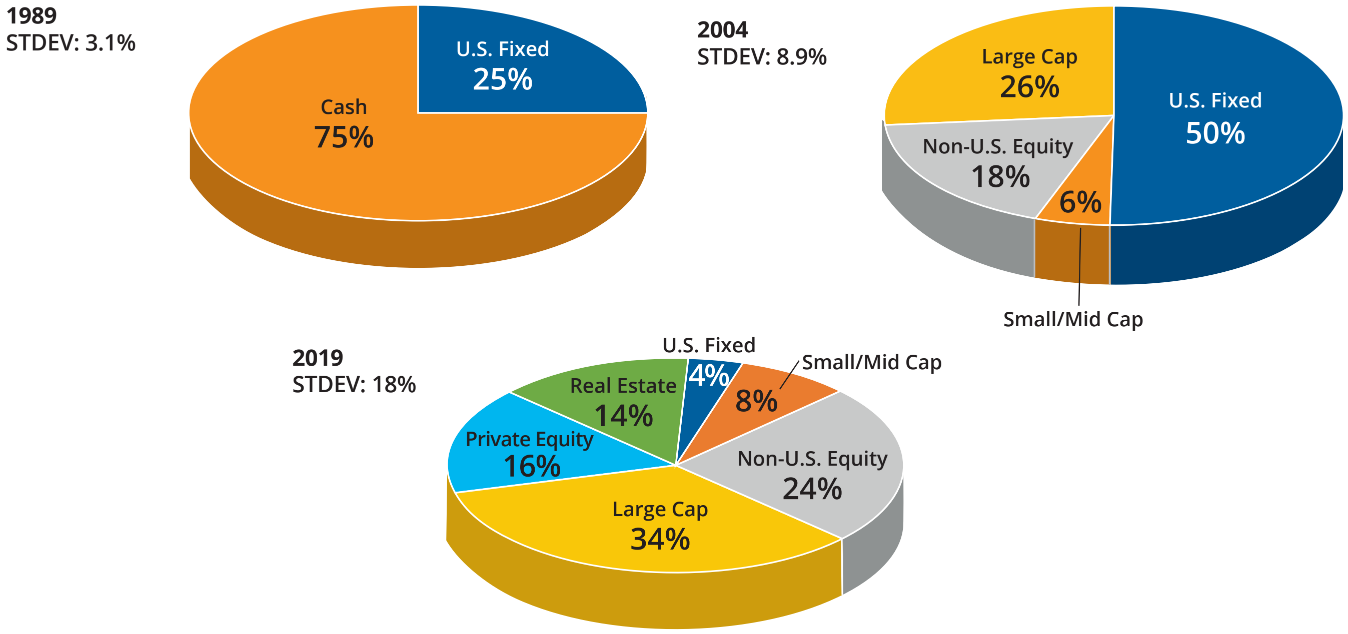
### The Knock Against GLWBs and Where the Industry Can Help

GLWB products have a reputation for being complex and, thus, high-cost. The industry has made impressive strides in recent years to simplify the way we talk about

## Figure 2

### More Risk, Same Return

*Allocations required to achieve an expected 7.5% return*




*Source: Callan.*

the products, and the products have become better structured from a risk management perspective. All of that's a positive, but in 2018 GLWB usage was still less than 50 percent across variable and fixed indexed annuities.[5]

I would argue that it's time for the industry to take ownership of this opportunity. GLWBs can be complex: Insurance products that can provide immediate liquidity on demand, yet still guarantee an income stream that will not decrease regardless of what happens in the market (all in an environment where bond yields are at or near historic lows!), truly are marvels of financial engineering.

But that's not how they have to be positioned.

Consider carmakers. When they talk about the latest safety features, they don't spend a lot of time talking about the sophisticated array of radar sensors, digital cameras, and high-speed data processors that go into them. Rather, it's a conversation about benefits and behaviors. It's about technology that takes the wheel from drowsy drivers and keeps them in their lane or that applies the brakes to prevent a texting teen from rear-ending a stopped car.

Annuity providers can learn a thing or two from Detroit in this regard. If we focus squarely and unabashedly on the benefits of GLWBs—flexibility and security—and the constructive investor behaviors of saving, budgeting, and legacy planning that they encourage and facilitate, their popularity can be expected to last a lot longer than 15 minutes.

[1] https://www.cdc.gov/nchs/data/hus/2011/022.pdf and https://www.cdc.gov/nchs/data/nvsr/nvsr68/nvsr68_07-508.pdf

[2] https://www.washingtonpost.com/news/fact-checker/wp/2014/07/24/do-10000-baby-boomers-retire-every-day/?noredirect=on

[3] LIMRA Secure Retirement Institute analysis of the *2016 Survey of Consumer Finances*, Federal Reserve Board, 2017.

[4] https://www.smartriskcontrol.com/hubfs/Website/Resources/More_Risk_For_The_Same_Return-infographic.pdf

[5] *U.S. Individual Annuities: 2018 Year in Review*, LIMRA Secure Retirement Institute, 2019.

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Hanzlik joined CUNA Mutual Group in 2010. His accomplishments since joining the company have included revamping the annuity portfolio focusing around registered indexed linked solutions and helping develop the Wealth Management business at the organization.

Throughout his CUNA Mutual Group career, Hanzlik has been a Values in Practice finalist, Product Team Commitment award winner, LIMRA Rising Star in Retirement, and frequent contributor to retirement industry thought leadership as a panelist, roundtable member, and trade group committee contributor.

Prior to joining CUNA Mutual Group, Hanzlik held positions at Allstate Financial and Tillinghast Towers Perrin. His roles focused on life and annuity product management, development, strategy, compliance, governance and financial management.

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