Protecting Retirement Income from Longevity Risk

The Retirement Challenge

One of the biggest concerns for retirees today is running out of money. Market volatility, inflation, or unexpected expenses can erode savings faster than anticipated. Plus, most are also living longer in retirement and need to make their retirement savings last. Traditional sources like Social Security and pensions may not be enough, and relying solely on investments can expose retirees to unnecessary risk.

Americans are Living Longer

Thanks to advances in medical science and healthier lifestyles, Americans are generally living longer than their parents did. From a retirement planning perspective, this can be challenging, especially since 31% of people underestimate the life expectancy of a 65-year-old in the U.S.[1]

If a retiree plans to live as long as his father, say age 75, and he lives instead to age 95, this retiree could run out of money, unless his retirement plan is structured to protect against this.

Fewer Americans have Guaranteed Sources of Income

One way to help ensure your assets last throughout your lifetime is by securing guaranteed income streams. For most people, that is Social Security. A smaller group may also benefit from employer-provided defined benefit pension plans. Beyond these, most income sources are not guaranteed and are subject to market fluctuations.

From 1975 to 2022 the percentage of people with a pension plan has dropped from 74% to 20%[3] and will continue to drop. So, what can a retiree do to guarantee at least a portion of their income for life?

A 65-year-old couple has a 45% chance one spouse will live to age 90[2]

65 Year-Old Male		65 Year-Old Female	
Age	Probability	Age	Probability
80	73%	80	81%
85	55%	85	66%
90	34%	90	45%
95	15%	95	23%

Sources of Income for Retirees Age 65+	
Social Security (including Old-Age and DI)	**92%**
Tax-preferred retirement accounts (401(k), RA)	60%
Employer defined benefit pension	**55%**
Interest, dividends, or rental income	52%
Wages, salaries, or self-employment	26%

Source: Federal Reserve (2024). Among retirees. Income sources include income of a spouse or partner

[1] TIAA Institute and the Global Financial Literacy Excellence Center, “An unrecognized barrier to retirement income security: Poor longevity literacy,” 2023.

[2] https://humbledollar.com/2024/05/long-odds/

[3] USDOL – Private Pension Plan Bulletin Historical Tables and Graphs, 1975-2022

SIMPLICITY GROUP

An annuity is intended to be a long-term, tax-deferred retirement vehicle. Earnings are taxable as ordinary income when distributed, and if withdrawn before age 59½, may be subject to a 10% federal tax penalty. If the annuity will fund an IRA or other tax qualified plan, the tax deferral feature offers no additional value. Qualified distributions from a Roth IRA are generally excluded from gross income, but taxes and penalties may apply to non-qualified distributions. Consult a tax advisor for specific information.

The source(s) used to prepare this material is/are believed to be true, accurate and reliable, but is/are not guaranteed. This information is provided as general information and is not intended to be specific financial guidance. Before you make any decisions regarding your personal financial situation, you should consult a financial or tax professional to discuss your individual circumstances and objectives.

Longevity Risk Strategy: Annuities

Allocating a portion of retirement savings into an annuity can help guarantee a steady stream of income and provide protection against outliving retirement funds.

Annuities Provide

- **Guaranteed Lifetime Income** – Never worry about outliving your savings
- **Protection from Market Risk** – Stable payouts, even in down markets
- **Predictability of Income** – Know what you'll receive and when
- **Flexibility** – Options tailored to your needs and timeline

Understanding Annuities

Annuities come in a variety of types. Generally, money is invested into an annuity in either a series of payments (e.g., monthly) or in a lump sum. The annuity value can grow tax deferred until you are ready to use it. When the time is right, you can turn the annuity value into guaranteed lifetime income.

Who Should Consider This Strategy?

- Individuals nearing retirement who are looking to build predictable, guaranteed income
- Those who are looking for supplemental retirement income streams
- Pre-retirees who are maxing out traditional retirement vehicles and want to shelter additional funds

Speak to your financial advisor today to learn how to incorporate an annuity into your retirement strategy

[1] TIAA Institute and the Global Financial Literacy Excellence Center, "An unrecognized barrier to retirement income security: Poor longevity literacy," 2023.

[2] https://humbledollar.com/2024/05/long-odds/

[3] USDOL – Private Pension Plan Bulletin Historical Tables and Graphs, 1975-2022

SIMPLICITY GROUP

An annuity is intended to be a long-term, tax-deferred retirement vehicle. Earnings are taxable as ordinary income when distributed, and if withdrawn before age 59½, may be subject to a 10% federal tax penalty. If the annuity will fund an IRA or other tax qualified plan, the tax deferral feature offers no additional value. Qualified distributions from a Roth IRA are generally excluded from gross income, but taxes and penalties may apply to non-qualified distributions. Consult a tax advisor for specific information.

The source(s) used to prepare this material is/are believed to be true, accurate and reliable, but is/are not guaranteed. This information is provided as general information and is not intended to be specific financial guidance. Before you make any decisions regarding your personal financial situation, you should consult a financial or tax professional to discuss your individual circumstances and objectives.