INSIGHTS

PACIFIC LIFE

RETIREMENT STRATEGIES GROUP | OCTOBER 2024 RETIREMENT PLANNING

# Longevity Risk in Retirement: Strategies to Help Create Lifelong Income

As a financial professional, you know how important it is to help clients design portfolios that create lasting income in retirement. However, you also know that the strategies your clients have in place could be jeopardized by events out of your control. Have you addressed longevity risk with your clients?

Longevity risk has always been a key retirement-planning concern for clients and financial professionals. It's a compounding risk, as lifespan directly correlates to one's exposure to other retirement risks (sequence-of-returns, interest rate, market, inflation, and other risks). With pensions disappearing, many individuals may rely on Social Security retirement benefits as their main source of protected lifetime income, and that may not be enough.

That's where annuities can help. Outside of Social Security retirement benefits and pensions, annuities are the only way to create *protected* lifetime income to help address longevity risk. Consider these strategies:

1. **Income Later in Life:** Fixed, deferred income annuities (DIAs) allow the purchase payments to generate predictable income payments starting at a later date. These annuities offer various payout options, including Single and Joint Life, so it's important to confirm the details with carriers. Income from these annuities can begin as early as thirteen months after the contract is issued, but clients typically start payments further into their retirements. This can make a DIA a useful tool to help cover later-life expenses, particularly in the face of higher future healthcare costs.
2. **Tax-Excluded Income:** If a client holds assets within a non-qualified annuity, consider checking whether the carrier offers partial annuitization. This option allows the client to convert a portion of his or her annuity into lifetime income payments, part of which may not be subject to taxes through the tax exclusion ratio, which could be useful for covering unexpected retirement expenses. However, restrictions may apply to take advantage of exclusion-ratio tax treatment, so it's advisable to consult with the client's tax professional before proceeding.
3. **Guaranteed Minimum Withdrawal Benefit (GMWB):** Many variable annuities offer a guaranteed minimum withdrawal benefit for an additional cost. This optional benefit provides various withdrawal options, based on factors such as age at first withdrawal and selection of Single Life or Joint Life, with some benefits offering enhanced crediting periods wherein the withdrawal base grows by a certain percentage, even in down market years.[1] Once activated, this benefit can provide a lifetime withdrawal guarantee, helping to mitigate longevity risk.

All guarantees, including optional benefits, are subject to the claims-paying ability and financial strength of the issuing insurance company.

[1]Optional benefit withdrawals are not annuity payouts. Annuity payouts generally receive a more favorable tax treatment than other withdrawals. Payments received prior to converting the contract to annuity payouts are treated as withdrawals and may be subject to withdrawal charges, ordinary income taxes, a possible 3.8% federal tax on net investment income for nonqualified money, and if prior to age 59½, an additional 10% federal income tax. GMWB riders do not guarantee a rate of return or growth rate.





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## Help Clients Protect their Financial Futures

Addressing longevity risk is an essential aspect of retirement planning. By incorporating guaranteed-income options such as DIAs, partial annuitization, and variable annuities with guaranteed minimum withdrawal benefits, you can help clients create future income. These strategies may not only cultivate confidence, but they also help ensure that clients have the resources they need to cover later-life expenses without the fear of outliving their savings. Careful planning and consideration of these options can help clients navigate the uncertainties of extended lifespans and maintain financial well-being throughout their retirement years. Keep in mind, annuities are not for everyone. It's important to carefully consider all the costs, features, and restrictions of the chosen annuity and ensure it fits a client's individual needs.

### ACTIONS YOU CAN TAKE RIGHT NOW

- **Identify clients with Social Security retirement benefits as their only lifetime income source.**
- **Use our Retirement Income Gap Calculator with your clients to identify potential income shortfalls.**
- **Evaluate annuity-based income strategies.**

## Additional Resources and Links

Longevity Risk Planning: A Play for Retirees

Longevity Calculator

Retirement Income Gap Calculator

**For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.**

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Annuity withdrawals and other distributions of taxable amounts, including death benefit payouts, will be subject to ordinary income tax. For nonqualified contracts, an additional 3.8% federal tax may apply on net investment income. If withdrawals and other distributions are taken prior to age 59½, an additional 10% federal income tax may apply. A withdrawal charge also may apply. Withdrawals will reduce the contract value and the value of the death benefit, and also may reduce the value of any optional benefits.

Partial annuitization and withdrawals will reduce the contract value and the value of the death benefit, and also may reduce the value of any optional benefits. Partial annuitization is treated as a withdrawal and will reduce the contract value by the amount that is annuitized. Additionally, for contracts that hold an optional living or death benefit rider, partial annuitization may reduce the benefits guaranteed under the rider, depending on each rider's features and the amount that is annuitized.

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