Longevity Risk Planning—A Playbook for Retirees

What conversations are you having with clients about longevity risk?
October was Longevity Awareness Month—a reminder to address how your clients can best plan for longevity risk depending on their retirement stage.

It's that time of year again: Fall sports such as football, basketball, and hockey have started their new seasons, and athletes are hoping to give their teams the best shot at success. Their training must depend on which stage of the season they're in, and early planning is essential to maximizing performance. Regardless of the sport, preparation is key.

Retirees face similar challenges while planning for longevity risk in retirement. There are different strategies to use depending on each client's stage of retirement, and appropriate preparation and planning are important to mitigate the potential challenges associated with a longer life.

October was Longevity Awareness Month—a good reminder and opportunity to address how your clients can best plan for longevity risk depending on their retirement stage. As medical and technological advancements continue to lengthen life spans, it's important to have these challenging conversations to ensure clients have the best possible chances of success during their "retirement seasons." Here's an easy way to start the conversation and illustrate the benefits of preparation based on Michael Stein's three stages of retirement.[1]

1. The Go-Go Years: Living Their Best Life

The "go-go years" refer to the most active phase in retirement. This would be the start of a client's "season," the point where they have the most energy and want to accomplish as much as possible. Spending is the highest, and longevity risk should be the least of their worries—after all, they've spent their entire careers preparing to play the retirement game. But, just as athletes must be confident in their abilities to let their training shine through, retirees must be confident in their retirement strategies and savings to truly enjoy what they've worked so hard for. A predictable stream of income can help clients achieve that confidence by mitigating the risk of overspending or underspending in retirement.

Meet with clients to discuss their retirement income styles and how protected income fits in their plans during this stage of retirement. For example, the features of annuities can help clients offset longevity concerns. Knowing they'll have income they can count on, may help them feel better about an occasional splurge on courtside Lakers tickets or behind-home-plate seats at Yankee Stadium.

2. The Slow-Go Years: Planning for Convenience

In this phase, spending declines compared to the previous stage. For athletes, this would be when teams reconvene to assess the success of their strategies. They may make changes to defend their leads or capture lost ground. Similarly, clients slowing down in retirement may need to reassess and pivot their discretionary spending during the Slow-Go years.

One strategy could be to contribute to a deferred income annuity (DIA), which has a later start date (past 13 months

[1] Stein, M. K. (1998). *The Prosperous Retirement: Guide to the New Reality.* Emstco Press.

from issue). This can help address longevity concerns, and the income generated when payments start can be used for essential expenses as clients age. If a client still has a large IRA or qualified assets, they can consider carving out a portion of those assets and reallocating them to a DIA via a Qualified Longevity Annuity Contract (QLAC). This will potentially reduce current taxes because those assets will not be included in the calculation of required minimum distributions (RMDs) through age 85. This means that payment can be deferred beyond the required beginning date up to age 85, and in the earlier years, the RMDs will be smaller and may result in lower taxes.

3. The No-Go Years: Thrive with a Legacy

The No-Go Years are the end of your clients' "seasons," the time when they get to take a victory lap, bask in the glow of their adventures, and decide on their legacies of their time "playing the game." Just as younger athletes network and interface with fans and older athletes plan their own sports legacies, retirees can use this phase to sort out what they'll leave behind to beneficiaries.

Annuities can help these clients leave legacies for their loved ones, as some carriers offer enhanced beneficiary benefit guarantees for an additional cost. In addition, nonqualified annuities offer tax-advantaged distribution options for beneficiaries. With these strategies in place early, clients can be confident in what they will leave behind for the people they care about most.

So, as you watch your favorite game this week, remember that the best athletes are always training and preparing for what comes next. As longevity risk in retirement is one of the hardest to gauge, it's important to apply that same level of dedication to early planning.

ACTIONS YOU CAN TAKE RIGHT NOW

- **Identify clients in each retirement stage.**
- **Review lifetime and legacy goals.**
- **Evaluate adding guaranteed income and/or beneficiary benefits to client retirement plans.**

Additional Resources and Links

Using Protected Lifetime Income As a "Sunscreen" for Longevity Risk

Do You Know Your Clients' Retirement-Income Styles?

The Longevity Lesson from Social Security

All guarantees are subject to the claims-paying ability and financial strength of the issuing insurance company and do not protect the value of the variable investment options, which are subject to market risk.

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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Under current law, a nonqualified annuity that is owned by an individual is generally entitled to tax deferral. IRAs and qualified plans—such as 401(k)s and 403(b)s—are already tax deferred. Therefore, a deferred annuity should be used only to fund an IRA or qualified plan to benefit from the annuity's features other than tax deferral. These features include lifetime income, death benefit options, and the ability to transfer among investment options without sales or withdrawal charges.

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