INSIGHTS

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The Aging of America and Its Impact on Retirement

Did you know that approximately 4.1 million people will turn 65 each year from now until 2027?[1] With many of these retirees depending solely on Social Security retirement benefits for lifetime income, now is a good time to discuss retirement income planning with clients.

Retirement planning is a multifaceted process that requires careful consideration and strategic management. A key milestone in this journey is reaching what the Alliance for Lifetime Income labeled as the "Peak 65® Zone"—a term that has gained popularity among financial professionals and retirees alike. Peak 65 refers to the period between 2024 and 2027 having the largest increase in people over 65 years old. The number of Americans turning 65 will average more than 11,200 per day during this timeframe, while the previous decade had an average of 10,000 people turning 65 each day. This leads to the convergence of three pivotal milestones in retirement planning: age 65, lifetime income, and asset longevity. Understanding and managing these crucial aspects is key to helping the growing number of retirees.

Engage with Clients Early

Age 65 is a critical age for retirement planning as it marks the eligibility for Medicare, which offers medical coverage that may be more affordable. Additionally, it is around this age when many begin to claim Social Security retirement benefits, although the full retirement age may be slightly higher for many people.

A comprehensive planning approach is needed for achieving a comfortable retirement. Clients who engage with a financial professional early are better poised to navigate complex decisions, optimize their retirement incomes, and make necessary adjustments to their plans. This is especially important as clients begin considering how to generate income from their retirement assets.

Explore Lifetime Income Options

Ensuring a steady income stream throughout retirement is essential. This includes Social Security retirement benefits, pensions, annuities, and withdrawals from retirement accounts. The goal is to create a diversified income plan that addresses a client's specific retirement income needs and can help withstand the effects of market fluctuations and keep pace with inflation.

Social Security retirement benefits are the major source of income for most people age 65[2] and older. Yet, one of the biggest questions when it comes to claiming benefits is whether to start early or delay. Not knowing how long one's retirement will last makes this decision challenging, but by incorporating strategies such as annuities, clients can delay claiming—enabling them to increase their annual Social Security retirement income. Here are two possible options with annuities:

- **Variable Annuity:** Companies offer different types of variable annuities, each with it's own features and options for receiving income payments. Clients can use their annuity income payments to help cover essential costs during retirement. This strategy may allow clients to delay claiming their Social Security retirement benefits, stay in the equity market, invest other assets differently and for longer, and help protect against inflation risk.
- **Fixed Indexed Annuity:** For clients that have a low risk tolerance, a fixed indexed annuity can provide steady growth potential without exposure to the market and its risks. This strategy gives clients the potential to earn interest based on the performance of an index and avoid the effects of market downturns.

[1] *"Peak 65 Is Here: What It Means for You, Your Life and Your Money."* Protected Lifetime Income, Alliance for Lifetime Income. Accessed July 30, 2024.
[2] *"Fact Sheet Social Security: Snapshot of a Month: June 2024 Beneficiary Data.* Social Security Administration. Accessed July 30, 2024.

Plan for Asset Longevity

Managing assets to last throughout retirement involves strategic withdrawals, investment management, and, sometimes, adjusting lifestyle expectations. The aim is to avoid depleting retirement savings prematurely.

Another challenge in retirement planning is ensuring clients do not outlive their savings. With life expectancy continuing to increase[3], the risk of outliving savings is a significant concern. However, there are strategies and considerations that can be incorporated into clients' portfolios to address this risk. Here are two to consider.

- **Single-Premium Immediate Annuity (SPIA):** This fixed annuity can be used in various ways for retirement planning. It can help bridge the gap before claiming Social Security retirement benefits or immediately generate reliable lifetime income payments that clients can depend on.
- **Deferred Income Annuity (DIA):** Similar to a SPIA, this type of annuity generates lifetime income for retirees, but the income payments start at a later time. Typically chosen by clients concerned about expenses and costs later in life, a DIA is another way to put money aside for later in retirement. Additionally, using a DIA as a qualified longevity annuity contract (QLAC) can help reduce required minimum distributions (RMDs) when clients hit their required beginning date (RDBs).

Clients Need Your Guidance

Understanding the importance of age-specific milestones, creating a diversified income plan, and implementing strategies to help manage asset longevity are a few essential steps in helping your clients pursue a sustainable retirement that's comfortable to them.

ACTIONS YOU CAN TAKE RIGHT NOW

- **Reach out to clients in their early 60s to discuss the importance of retirement income planning.**
- **Review the income strategies of clients who are approaching age 65.**
- **Consider lifetime income strategies, including QLACs.**

Additional Resources and Links

June 2024 Social Security Fact Sheet

The Longevity Lesson from Social Security

Using Retirement Funds to "Mind the Gap" for Social Security Benefits

[3] "*Mortality in the United States, 2022.*" U.S. Department of Health and Human Services. Accessed March 2024.

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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