



Retirement Income Solutions

Belt & Suspenders: Packaging Investment & Insurance Programs

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Version 1

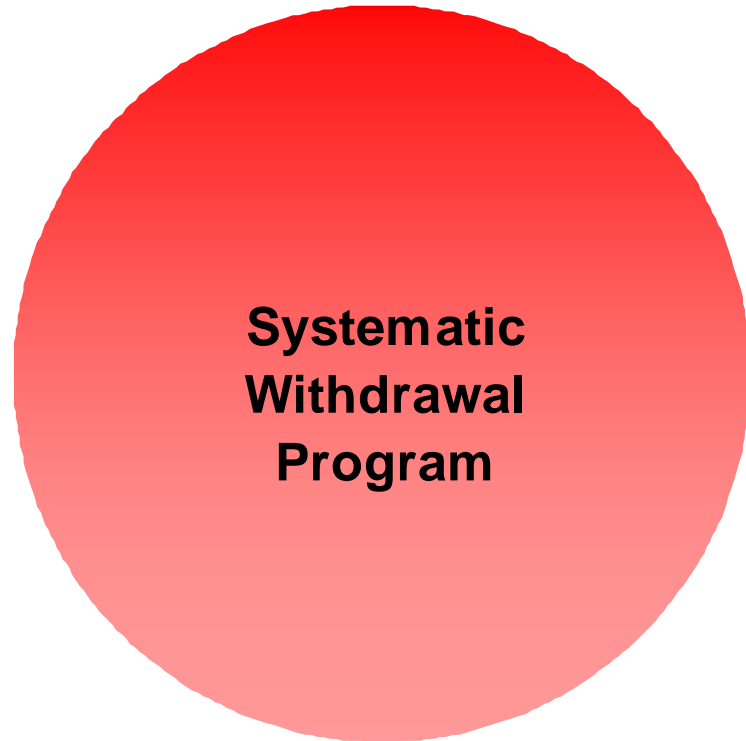
Today's Predominant Solution – Self Insurance

Pros

- Control of assets
- High degree of liquidity

Cons

- Risk of running dry
- Low level of income
- Not guaranteed



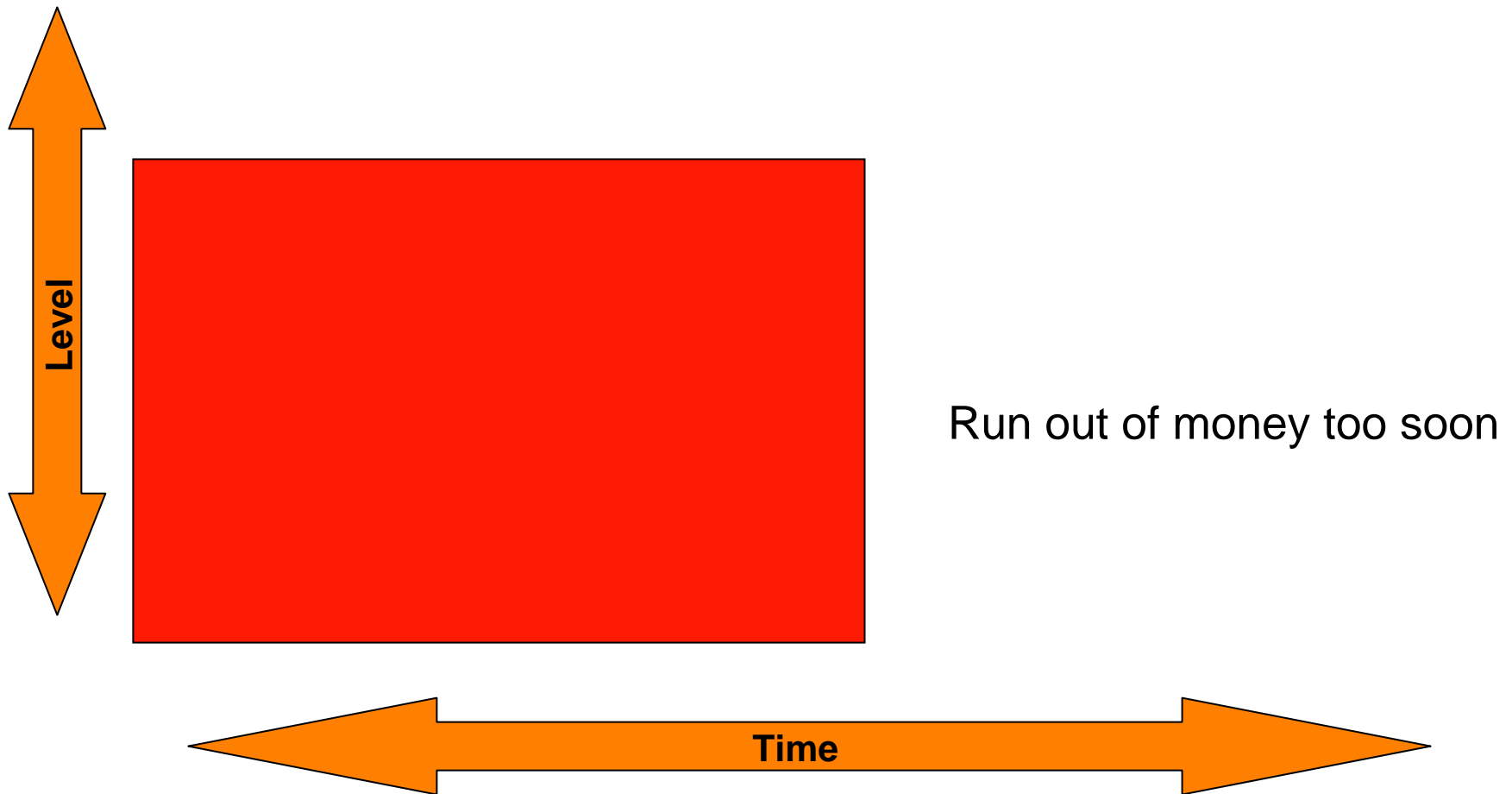
Why Belt & Suspenders? Longevity Risk!

- **Heightened awareness due to increasing life expectancy**
- **Typical consumer confuses average life expectancy with individual life span**
- **Half of individuals will have a life span that exceeds their life expectancy**

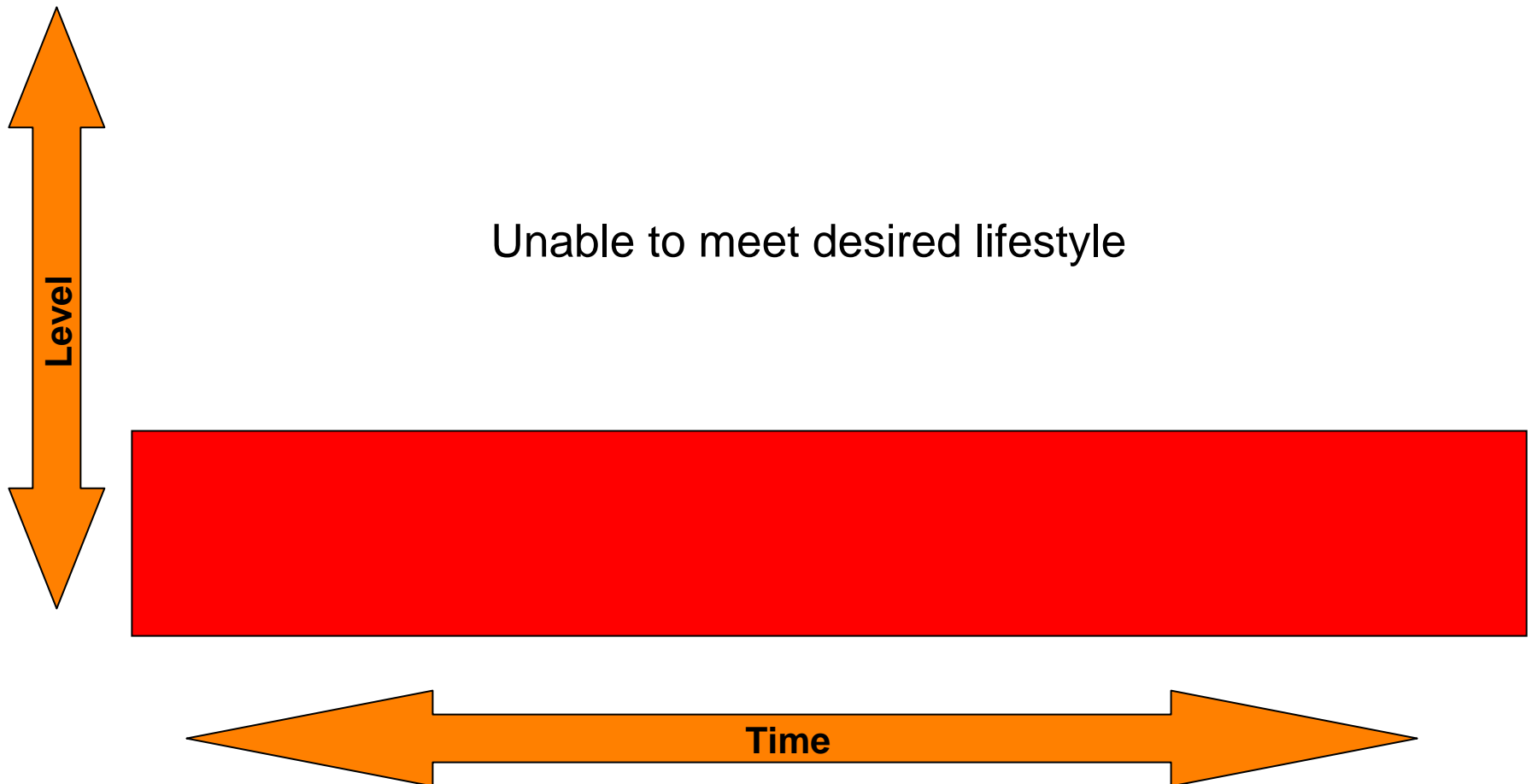
What Is The Impact Of Longevity Risk?

- **Caused both by the increase in life expectancy and by implications of life expectancy itself**
- **Increase leads to higher “costs of frailty” due to higher incidence of health, LTC and medical events**
- **Uncertainty in level & duration of cash flows generated from an investment portfolio due to the uncertain life span of an individual**

Uncertainty: Withdrawals Too High

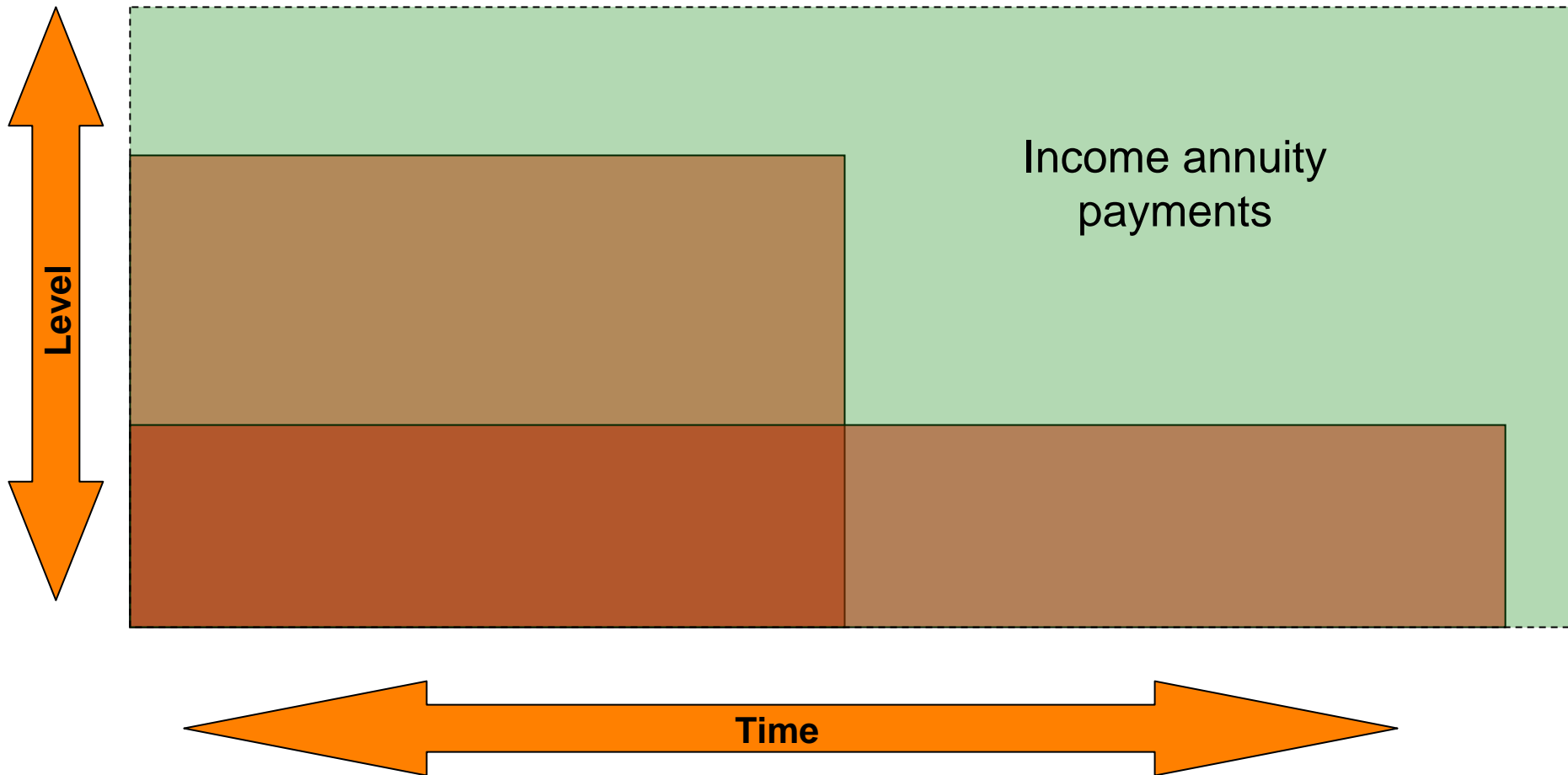


Uncertainty: Withdrawals Too Low

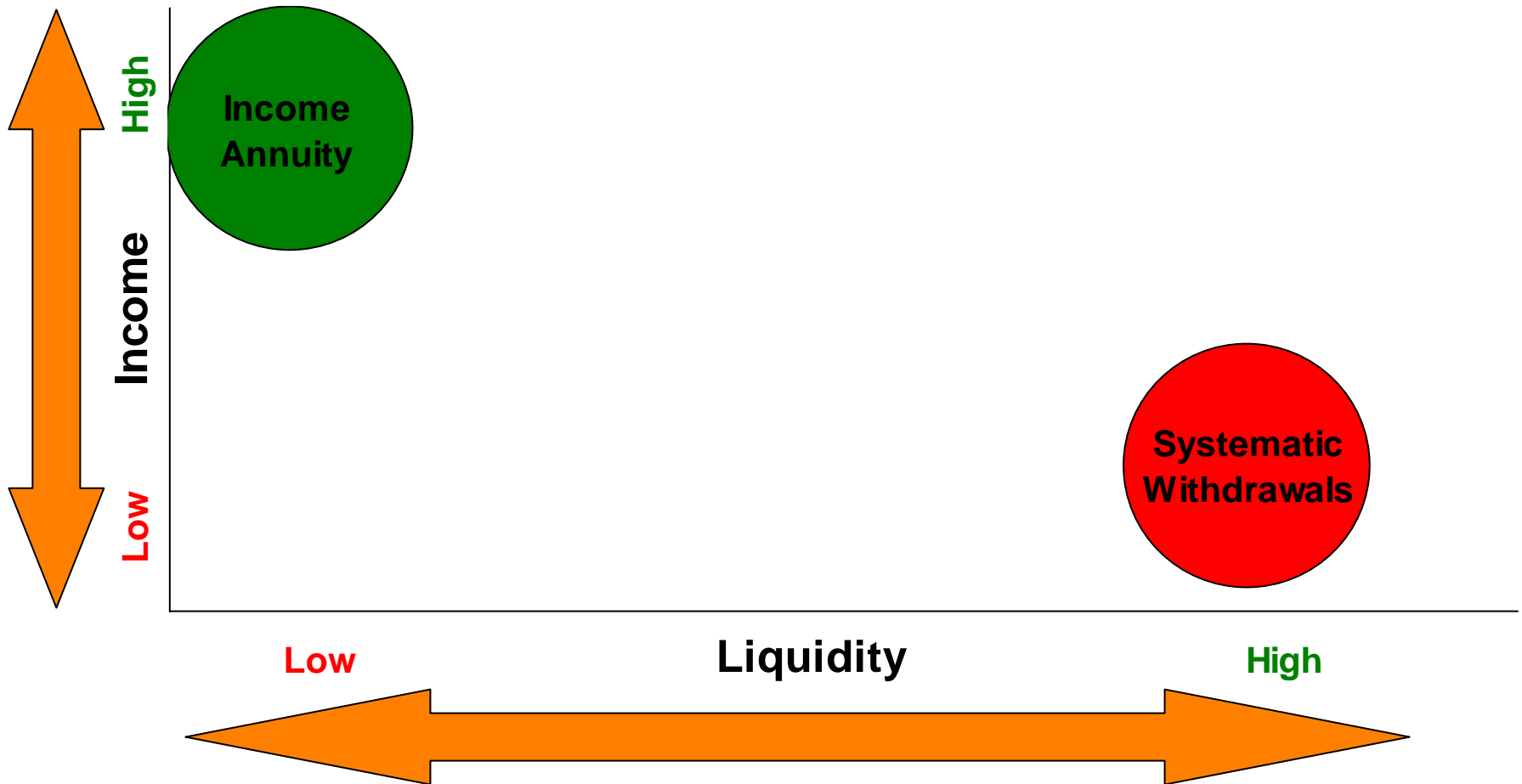


**Income Annuities:
The Belt & Suspenders For
Retirement Income Investment
Programs**

Income Annuities: Higher & Longer Cash Flows



The Income vs. Liquidity Preference-Tradeoff



Combining the Best of Both Worlds

Self-Insured Investments

Cons

- Can Outlive Income
- Low Income Level
- Tax Inefficient

Pros

- Control of Assets
- Growth Potential

Income Annuities

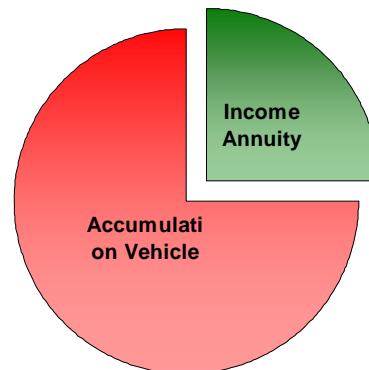
Pros

- Higher Income
- Guaranteed Lifetime Income
- Tax Efficient (**NQ**)

Cons

- Limited Control of Assets

Product Allocation



“New” Innovation: “Longevity Insurance”

(a certain category of annuity)

The Retirement Income Planning Challenge

- **Uncertainty implied by longevity risk**
- **How long do you plan for?**
 - Indefinite planning horizon with self-insurance
- **Overspending / Underspending**
 - Spend (withdraw) too much - run out of money
 - Spend (withdraw) too little - miss out on a lifestyle

The “Longevity Insurance” Solution

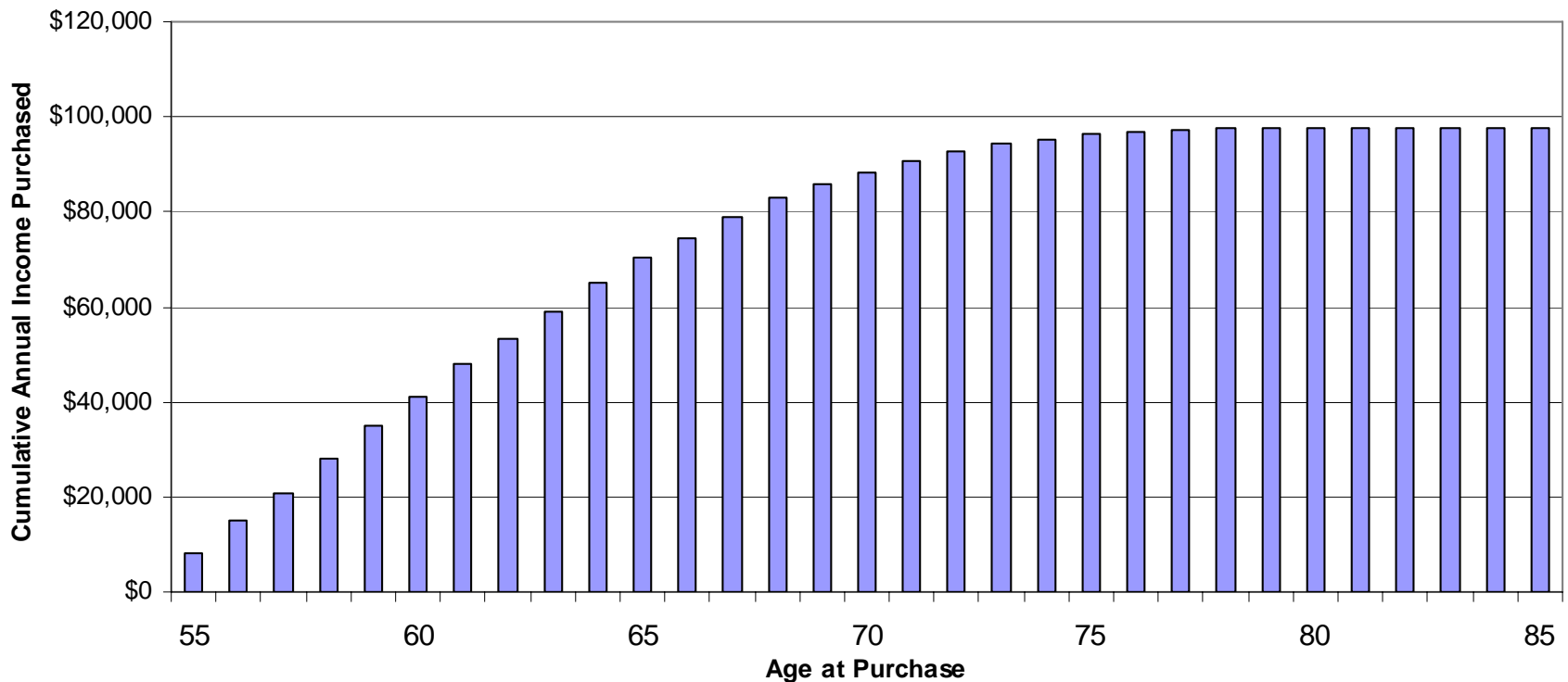
- **Insurance: in exchange for a premium, provides a benefit upon the occurrence of an “insured event” i.e. living too long**
- **When used in the investment context, it eliminates the uncertainty in the planning horizon by pegging it to a known future age**

General Description of “Longevity Insurance”

- **Convert defined contributions today into defined lifetime income benefits tomorrow**
- **Uses single or flexible contribution funding**
- **Lock-in today’s yields and today’s mortality**
- **Flexible income start date (higher leverage achieved at later income ages e.g. 85)**
- ***No account balances***
- **Death benefit may range from none to a refund of contributions**

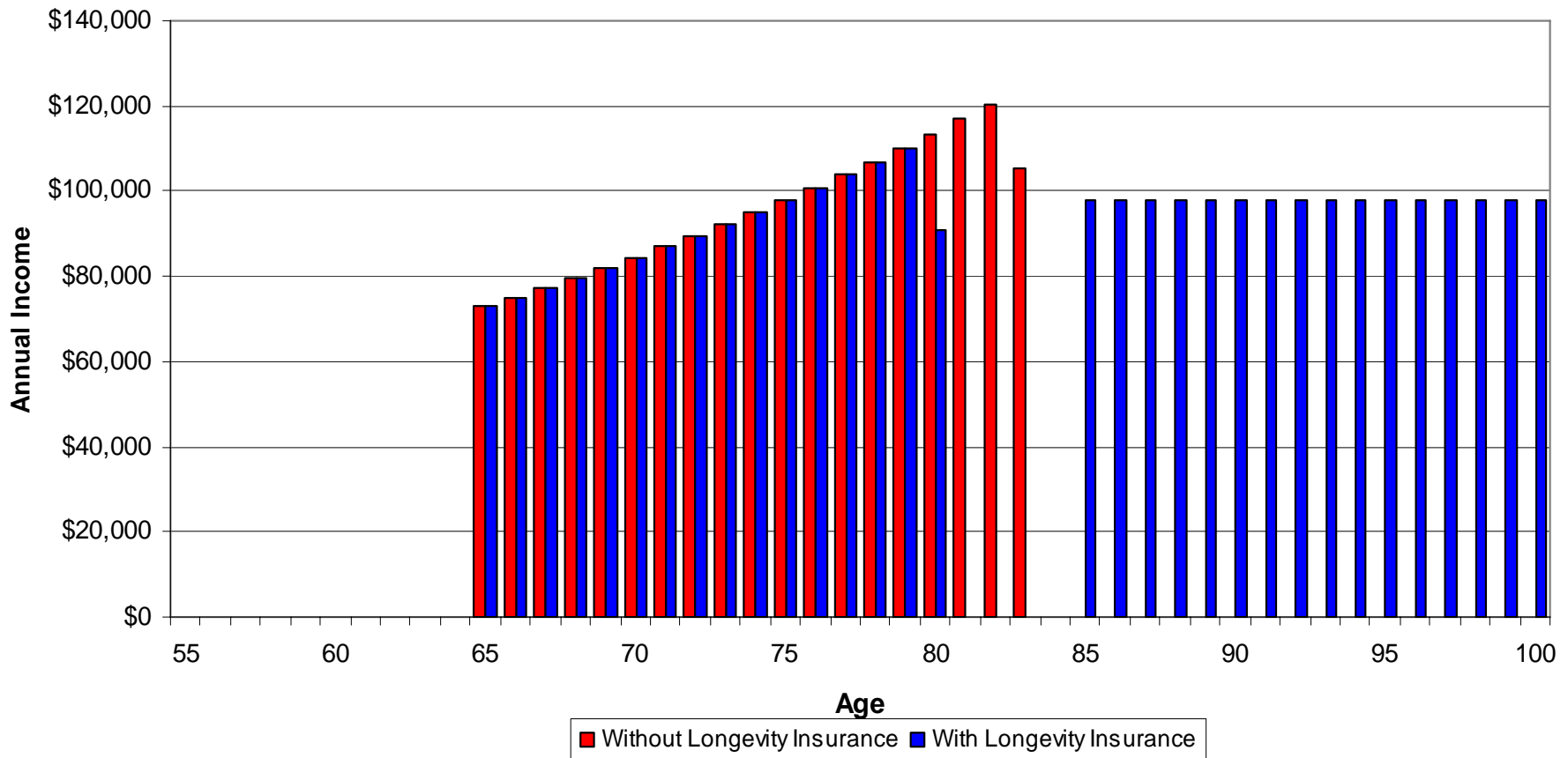
“Longevity Insurance” via Installment Funding

55 year old male uses 1% of account balance each year to purchase income beginning at 85 (\$1 million initial portfolio invested in stocks; hypothetical scenario)



“Longevity Insurance” via Installment Funding

Cash flows based on a 4% systematic withdrawal program starting at age 65



Conclusion for Retirement Income Solutions

The combination of investment & insurance approaches are more powerful than investment-only approaches to retirement income

With Income Annuity As *Part* of The Portfolio

- **Highest level of inflation-adjusted income per dollar of assets, while eliminating longevity risk (most likely to deliver desired lifestyle)**
- **More flexibility with the uninsured portion of the portfolio: higher withdrawal rates, more aggressive allocations**
- **Optimizing the income component leaves more resources to solve for other critical retirement financial needs (e.g. LTC, Health, Legacy)**