Longevity Insurance Overview

- **What is Longevity Insurance?**
  - Purchased at retirement (e.g. age 65)
  - Payouts begin in the future (e.g. age 85)
  - Similar to an immediate annuity without initial payouts

- **Advantages of Longevity Insurance**
  - Focus on high value insurance
  - Small allocation (10-15%) for large spending increase (20-30%)
  - Efficient way to get majority of annuity benefits

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Insurance Costs Depend on Payout Chance

$100

Insurance Payout ($100) × Chance of Payout (5%)
Insurance Costs Depend on Payout Chance

- Insurance Payout ➔ $100
- Chance of Payout ➔ 50%
- Insurance Cost ➔ $50
Cost Savings with Annuity Income
Age 65, Male

Costs and hypotheticals presented for informational and evaluative purposes only.
Longevity Insurance

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Longevity Insurance

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Insurance Illustrations

Income from $1,000,000²
Male, Age 65

<table>
<thead>
<tr>
<th>Annuity Type</th>
<th>Annuity Allocation</th>
<th>Spending (Increase)</th>
<th>Insurance Benefit (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>0%</td>
<td>$57,557 (n/a)</td>
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<tr>
<td>Immediate</td>
<td>100%</td>
<td>$80,923 (+$23,366)</td>
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Income from $1,000,000
Male, Age 65

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<td>Longevity (85)</td>
<td>8.2%</td>
<td>$70,175 (+$12,618)</td>
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Policy Implications – DC Plans

- **Voluntary annuitization**
  - 100% very unlikely
  - 10% possible ➔ Longevity insurance much larger impact

- **Employer match**
  - DC plan covers funding from 65-85, employer covers late years?
  - Typical match levels sufficient for longevity insurance purchase

- **Required Minimum Distribution (RMD)**
  - Longevity insurance is non-compliant with RMD rules
  - Exemption (similar to immediate annuity) likely needed
Policy Implications – DB Plans

- **Lump sum distributions**
  - New option: 90% lump sum / 10% longevity insurance
  - Retains majority of insurance benefits

- **Discontinued DB Plans**
  - Replace DB → DC with DB → DC + Longevity insurance
  - Dramatically lowers DB support costs (90%)
  - Retains majority of insurance benefit

- **Summary**
  - Individuals seem to like liquidity
  - Longevity insurance -- low cost + high benefit
  - Current DB/DC plans enhanced with longevity insurance could allow individuals to have both liquid assets and insurance benefits