TIAA

Closing the guarantee gap

How policymakers can restore the role of lifetime income in workplace retirement plans

With people living longer, retirement is lasting longer, but retirement income is not keeping pace.

Most Americans underestimate their life expectancy... putting them at risk of outliving their savings

More than half of 65-year-old men will live beyond age 85 and one in three is expected to live to at least age 90.

Nearly two-thirds of 65-year-old women are expected to live to age 85 and almost half will live to age 90.

Will they have enough income to last through retirement?[1]

The retirement income gap is staggering

The difference between what retirees ought to have saved and what they actually have saved is estimated to be between $4 to $7.7 trillion.[2]

Social Security is not enough to cover retiree expenses

Financial planners typically suggest that retirees need at least 70% of their pre-retirement income for a comfortable retirement.

The average monthly Social Security payment ($1,348) replaces only some 30 to 50% of pre-retirement income.[3]

There is an obvious solution to the guarantee gap: in-plan annuities must play a central role in retirement savings plans, along with financial education, income planning tools and more flexible distribution options.

Annuities give you regular income after you retire

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An annuity is an investment vehicle that guarantees the payment of a stream of income in retirement. Experts agree: They offer exceptional protection against outliving your savings.

Six recommendations

Drawing on our experience as a leading provider of in-plan lifetime income solutions for nearly 100 years, TIAA has developed six central recommendations to policymakers. By changing federal policy in several key areas, these solutions promise to advance the role of lifetime income in retirement savings plans.

1. simplify the **safe harbor** for selecting an annuity provider
2. increase the **portability** of annuity contracts
3. broaden the **QDIA** regulations to further accommodate lifetime income features as a default choice
4. provide an annual lifetime income **statement** to plan participants
5. give participants **more access** to flexible income distribution options
6. provide a **tax incentive** in retirement for those who annuitize

1. These data are based on calculations for non-smoking individuals with average health using the Actuaries Longevity Illustrator developed by the American Academy of Actuaries and the Society of Actuaries, available at: http://www.longevityillustrator.org/
2. Pension Rights Center, *Nation's Retirement Income Deficit Now $7.7 Trillion*, Mar. 12, 2015, available at: http://www.pensionrights.org/newsroom/releases/nations-retirement-income-deficit-now-77-trillion; Jack VanDerhei, *Bridging the Gap: How Prepared are Americans for Retirement, Testimony before the U.S. Senate Special Committee on Aging*, Mar. 12, 2015.
3. In 2016, Social Security replaced about 50% of pre-retirement income at age 65 for the typical low earner (income of $21,000 in 2015), 39% for the medium earner (income of about $48,000) and 32% for the high earner (over $76,000 in income). National Academy of Social Insurance, *Social Security Benefits, Finances and Policy Options: A Primer* (2016), available at: https://www.nasi.org/socialsecurityprimer

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