Presentation to
Federal Advisory Committee on Insurance

Robert A. Kerzner
President and CEO
LIMRA, LOMA, LL Global
The Trusted Source for Industry Knowledge
Nearly 100 years in existence

More than 20,000 research reports published

Over 1.25 MILLION individual consumer records collected annually

At least 50 MILLION data points collected annually
By 2040 there will be 82 million retiree in the U.S.

PROJECTED NUMBER OF RETIREES

Source: LIMRA Secure Retirement Institute analysis of U.S. Census Bureau population projections.
Show Me The Money

Financial Assets by Age and Retirement Status

Source: LIMRA Secure Retirement Institute analysis of 2013 Survey of Consumer Finances, Federal Reserve Board, 2014
Retirement income opportunity will double to nearly $22 trillion by 2020

<table>
<thead>
<tr>
<th>Age Group</th>
<th>2010 Investable Assets</th>
<th>2020 Investable Assets</th>
<th>2020 Improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early Career</td>
<td>$0.4 trillion</td>
<td>$0.6 trillion</td>
<td>56% of assets</td>
</tr>
<tr>
<td>Mid Career with Kids</td>
<td>$1.7 trillion</td>
<td>$2.5 trillion</td>
<td>65% of assets</td>
</tr>
<tr>
<td>Kids in College</td>
<td>$4.3 trillion</td>
<td>$5.6 trillion</td>
<td></td>
</tr>
<tr>
<td>Pre-retiree Age 55-64</td>
<td>$6.1 trillion</td>
<td>$10.2 trillion</td>
<td></td>
</tr>
<tr>
<td>Retired Age 65+</td>
<td>$5.9 trillion</td>
<td>$11.4 trillion</td>
<td></td>
</tr>
</tbody>
</table>

Source: LIMRA, Based on 2001, 2007 and 2010 Survey of Consumer Finances, Federal Reserve Board and U.S. Census Bureau’s *Current Population Survey, March 2011 Supplement*. All estimates and calculations reflect consumer segments of age 25 or more, and households with assets between $50K and $4.9M. Household HH by age group growth has been estimated by using Census projections by age and assuming that the proportion of HHs that have between $50,000 and <$5 million is constant within age group over time and the proportion in equities remains constant within each age group over time.
Only 1 in 5 Americans under 50 have a defined benefit plan

For those with a DB plan:

...more and more likely to be *frozen*, and

...represent *smaller and smaller wage replacement rates*

Source: Retirement Income Reference Book, LIMRA Secure Retirement Institute, (will be published in 2015)
Today the individual is responsible for their retirement security

Source: Department of Labor Private Pension Plan Bulletin Historical Tables and Graphs, December 2014, Table E1
RETIREMENT RISKS:

✓ Few have saved enough systematically
✓ Longevity
1 of 4 Americans age 65 will live into their 90s

**Probability of 65-Year-Olds Surviving to Select Ages**

<table>
<thead>
<tr>
<th>Age</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>86</td>
<td>89</td>
</tr>
<tr>
<td>25%</td>
<td>93</td>
<td>95</td>
</tr>
</tbody>
</table>

Source: Retirement Income Reference Book, LIMRA Secure Retirement Institute, (will be published in 2015)
Morning Mix

U.S. life expectancy hits record of 78.8 years — for those born in 2012

By Lindsey Bever and Fred Barbash  October 8, 2014  <
@LindseyBever  @FredBarbash

Newborn babies in hospital nursery in Danbury, Conn. (ALAMY)

There's some good news on the longevity front. Life expectancy for Americans born in 2012 is 78.8 years — a record.

That's about six months longer than the mortality rate for those born in 2010.
Longevity – life expectancy goes up as people age

Source: CDC: Health, United States, 2012

If you live to 75: 87.4
If you live to 65: 84.3
At birth: 78.8
Retirees Remain Unconcerned About Longevity

Not concerned about outliving assets

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>87%</td>
</tr>
<tr>
<td>2006</td>
<td>80%</td>
</tr>
<tr>
<td>2012</td>
<td>75%</td>
</tr>
<tr>
<td>2013</td>
<td>73%</td>
</tr>
</tbody>
</table>

Advisors’ perceptions of retirement risks are nearly the opposite of retirees/pre-retirees

<table>
<thead>
<tr>
<th>Importance</th>
<th>Pre-retirees</th>
<th>Retirees</th>
<th>Advisors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Public policy</td>
<td>Public policy</td>
<td>Health care</td>
</tr>
<tr>
<td>2</td>
<td>Inflation</td>
<td>Inflation</td>
<td>Longevity</td>
</tr>
<tr>
<td>3</td>
<td>Health care</td>
<td>Market &amp; Investment</td>
<td>Public policy</td>
</tr>
<tr>
<td>4</td>
<td>Market &amp; Investment</td>
<td>Health care</td>
<td>Inflation</td>
</tr>
<tr>
<td>5</td>
<td>Longevity</td>
<td>Longevity</td>
<td>Market &amp; Investment</td>
</tr>
</tbody>
</table>

Source: LIMRA Secure Retirement Institute, 2015. Based on findings from Advising for tomorrow; Advisor Perspectives on Retirement Planning, LIMRA, 2012 that surveyed 1,042 advisors who have been in their field for more than a year, and LIMRA Secure Retirement Institute Consumer Study, 2014, results based on analysis of 888 retirees and 547 pre-retirees with $100K+ in household assets.
Top goal for retirement: Have enough money to last a lifetime

Most Important Retirement Goals

- Have enough money to last your lifetime: 41% (most important), 18% (second most important), 12% (third most important)
- Remain financially independent: 25% (most important), 22% (second most important), 17% (third most important)
- Stay and live in own home: 12% (most important), 14% (second most important), 13% (third most important)
- Spend time with family or friends: 8% (most important), 6% (second most important), 7% (third most important)
- Have enough money to pay for medical/…: 12% (most important), 12% (second most important), 28% (third most important)
- Pursue your interests and/or hobbies: 10% (most important), 11% (second most important), 24% (third most important)
- Have enough money for emergencies: 10% (most important), 13% (second most important), 25% (third most important)
- Maintain control of assets: 6% (most important), 12% (second most important)
- Leave money for heirs or charities: 6% (most important), 11% (second most important)
- Spend most or all money during lifetime: 5% (most important)

Note: Based on 2,000 retirees and pre-retirees.
Despite low interest rates, SPIAS experience steady growth

**Annual SPIA Sales**

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales in Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>$2.8</td>
</tr>
<tr>
<td>1997</td>
<td>$2.8</td>
</tr>
<tr>
<td>1998</td>
<td>$2.1</td>
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<tr>
<td>1999</td>
<td>$2.4</td>
</tr>
<tr>
<td>2000</td>
<td>$3.0</td>
</tr>
<tr>
<td>2001</td>
<td>$3.6</td>
</tr>
<tr>
<td>2002</td>
<td>$4.8</td>
</tr>
<tr>
<td>2003</td>
<td>$4.8</td>
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<tr>
<td>2004</td>
<td>$5.3</td>
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<tr>
<td>2005</td>
<td>$5.3</td>
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<tr>
<td>2006</td>
<td>$6.1</td>
</tr>
<tr>
<td>2007</td>
<td>$6.5</td>
</tr>
<tr>
<td>2008</td>
<td>$7.9</td>
</tr>
<tr>
<td>2009</td>
<td>$7.5</td>
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<tr>
<td>2010</td>
<td>$7.6</td>
</tr>
<tr>
<td>2011</td>
<td>$8.1</td>
</tr>
<tr>
<td>2012</td>
<td>$7.7</td>
</tr>
<tr>
<td>2013</td>
<td>$8.3</td>
</tr>
<tr>
<td>2014</td>
<td>$9.7</td>
</tr>
</tbody>
</table>

Deferred Annuity Sales Take Off

DIA Annual Sales

Dollars in Billions

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales in Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$0.2</td>
</tr>
<tr>
<td>2012</td>
<td>$1.0</td>
</tr>
<tr>
<td>2013</td>
<td>$2.2</td>
</tr>
<tr>
<td>2014</td>
<td>$2.7</td>
</tr>
</tbody>
</table>

Source: LIMRA Secure Retirement Institute, U.S. Individual Annuities survey
Income annuity sales are expected to reach over $21 billion by 2019.

### Income Annuity Sales Forecast

*In Billions*

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$2.1</td>
<td>$2.4</td>
<td>$3.0</td>
<td>$3.6</td>
<td>$4.8</td>
<td>$4.8</td>
<td>$5.3</td>
<td>$5.3</td>
<td>$6.1</td>
<td>$6.5</td>
<td>$7.9</td>
<td>$7.5</td>
<td>$7.6</td>
<td>$8.1</td>
<td>$8.7</td>
<td>$10.5</td>
<td>$12.4</td>
<td>$13.7</td>
<td>$16.4</td>
<td>$18.8</td>
<td>$20.4</td>
<td>$21.6</td>
</tr>
</tbody>
</table>


Income Annuities = SPIA + DIA

Updated March 2015
 Majority of consumers are buying annuities to create guaranteed income

Total Retail Annuity Market Sales by Investment Objectives 2014

In Billions

**Investment Objectives**

- Guaranteed income
- Principal Protection
- Protection + Market growth
- Market growth

$114.5

$39.8

$23.0

$28.2

Note: Totals are for retail sales only. This analysis excludes sales in employer plans and structured settlements.
Source: LIMRA Secure Retirement Institute, U.S. Individual Annuities survey
LIMRA Secure Retirement Institute, VA GLB Election Tracking Survey
$1 Trillion+
Estimated demand for guaranteed income products by 2023

$750 Billion
Today’s estimated demand for guaranteed income products

Source: Retirement Income Reference Book, LIMRA Secure Retirement Institute, (will be published in 2015)
SPIA Profile

SPIA Average Buyer Age: 73

Average Initial Premium: $136,000

Percentage of IRA business: 50%

Source for Percentage of IRA business: LIMRA Secure Retirement Institute, U.S. Individual Annuities Survey
DIA Profile

DIA Average Buyer Age: 59
Average Deferment Selected: 7.5 years
Average Initial Premium: $147,200
Percentage of IRA business: 73%

Variable Annuity Profile

- **VA Average Buyer Age:** 59
- **Average Initial Premium:** $91,000
- **Percentage of IRA business:** 59%

Source for Percentage of IRA Retail business: *LIMRA Secure Retirement Institute, U.S. Individual Annuities Survey*
Indexed Annuity Profile

Index Annuity Average Buyer Age: 61

Average Initial Premium: $89,400

Percentage of IRA Retail business: 62%

Source of Index Annuity Average Buyer Age: US Deferred Annuity Buyer Attitudes and Behaviors, 2012
Source for Percentage of IRA Retail business: LIMRA Secure Retirement Institute, U.S. Individual Annuities survey
8 in 10 employees would like income options

*Desire is stronger with younger and less affluent workers*

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**Percent Agree Employers Should Provide Employees With Ways to Convert Retirement Savings into Retirement Income**

<table>
<thead>
<tr>
<th>Age</th>
<th>Strongly agree</th>
<th>Somewhat agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 – 34</td>
<td>48%</td>
<td>52%</td>
</tr>
<tr>
<td>35 – 44</td>
<td>42%</td>
<td>30%</td>
</tr>
<tr>
<td>45 – 54</td>
<td>23%</td>
<td>50%</td>
</tr>
<tr>
<td>55+</td>
<td>25%</td>
<td>75%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Strongly agree</th>
<th>Somewhat agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $50K</td>
<td>37%</td>
<td>34%</td>
</tr>
<tr>
<td>$50K – $74.9K</td>
<td>47%</td>
<td>48%</td>
</tr>
<tr>
<td>$75K+</td>
<td>26%</td>
<td>54%</td>
</tr>
<tr>
<td>All</td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Base: 1,089 consumers who work for pay and are household decision-makers.
Annuity owners are more likely to be interested in converting assets into guaranteed lifetime income. Especially true for those who may not have access to a pension.

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Do not own an annuity</th>
<th>Own an annuity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirees</td>
<td>13%</td>
<td>31%</td>
</tr>
<tr>
<td>Pre-retirees (age 55 &amp; above)</td>
<td>28%</td>
<td>51%</td>
</tr>
<tr>
<td>Late Boomers (age 45-54)</td>
<td>36%</td>
<td>49%</td>
</tr>
</tbody>
</table>

Yes, interested

Less than 4 in 10 retirees have a formal, written plan.

Source: Retirement Income Reference Book, 2013 LIMRA Secure Retirement Institute
Of the retirees who have a formal retirement income plan...

...3 out of 4 adhere to it.

LIMRA Secure Retirement Institute
Consumers with a formal retirement plan are **twice** as likely to say they are very confident they are saving enough for retirement.

Source: LIMRA Retirement Study — Consumer Phase, 2013. The study is based upon a population of 1,975 consumers with minimum household assets of $100,000 or more. The data includes 888 retirees and 1,087 non-retired consumers.
Pre-retirees who have advisors have done more planning than those without an advisor.

Pre-retiree Retirement Planning Activities Completed

- Calculated the amount of assets you will have available for retirement: 58% (Work with an advisor), 30% (Do not work with an advisor)
- Determined what your income will be in retirement: 56% (Work with an advisor), 39% (Do not work with an advisor)
- Determined what your expenses will be in retirement: 52% (Work with an advisor), 32% (Do not work with an advisor)
- Estimated how many years your assets will last in retirement: 50% (Work with an advisor), 23% (Do not work with an advisor)
- Identified the activities you plan to engage in and their likely costs: 42% (Work with an advisor), 24% (Do not work with an advisor)
- None of the above: 18% (Work with an advisor), 40% (Do not work with an advisor)

Familiarity with Annuities is Low

- **Very familiar**
  - Retirees: 7%
  - Pre-retirees (age 55 & above): 8%
  - Late Boomers (age 45-54): 4%

- **Somewhat familiar**
  - Retirees: 36%
  - Pre-retirees (age 55 & above): 38%
  - Late Boomers (age 45-54): 30%

- **Not very familiar**
  - Retirees: 28%
  - Pre-retirees (age 55 & above): 28%
  - Late Boomers (age 45-54): 36%

- **Not at all familiar**
  - Retirees: 29%
  - Pre-retirees (age 55 & above): 26%
  - Late Boomers (age 45-54): 30%

Nearly half of Americans are not confident in their knowledge about investments and financial products.

48% say they are not very or not at all knowledgeable.

Source: Quarterly Retirement Perspectives 3Q 2013, LIMRA Secure Retirement
Areas where more financial education is needed

- Generating retirement income: 38%
- Understanding tax issues: 37%
- Asset management (stocks and...): 33%
- Investing basics: 32%
- Estate planning: 31%
- Addressing retirement risks: 28%
- Saving advice (how much to save,...): 25%
- Budgeting: 23%
- Managing or paying down debt: 23%

Those with incomes under $50K are more interested in education on saving, budgeting, and managing debt.

Source: Quarterly Retirement Perspectives 3Q 2013, LIMRA Secure Retirement
Who Had High Financial Literacy Scores?

<table>
<thead>
<tr>
<th>Gender</th>
<th>Work with an Advisor</th>
<th>Household Income</th>
<th>Household Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>31%</td>
<td>22%</td>
<td>20%</td>
</tr>
<tr>
<td>Women</td>
<td>23%</td>
<td>42%</td>
<td>38%</td>
</tr>
<tr>
<td>No advisor</td>
<td>24%</td>
<td>22%</td>
<td>20%</td>
</tr>
<tr>
<td>Works with advisor</td>
<td>35%</td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: Quarterly Retirement Perspectives 3Q 2013, LIMRA Secure Retirement

Base: 1,865 consumers who are household decision-makers.
People don’t always do what they know is right...
Auto-Enrollment helps people save

Automatic enrollment can increase participation by up to 34 percentage points.

Participation rate within the first 12 months:
- No auto enrollment: 37%
- Auto enrollment implemented: 86%

Participation rate after two years:
- No auto enrollment: 37%
- Auto enrollment implemented: 50%

Even after 2 years, participation is up 25 percent!

Source: Saving for Retirement on the Path of Least Resistance. Behavioral Public Finance: Toward a New Agenda, 2004
Employees are nearly **three times** as likely to participate in their DC plan if there is an employer match in place.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Odds Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer match</td>
<td>2.84</td>
</tr>
<tr>
<td>Household income $100,000 or more</td>
<td>1.71</td>
</tr>
<tr>
<td>College graduate or more</td>
<td>1.70</td>
</tr>
<tr>
<td>Defined benefit plan</td>
<td>1.33</td>
</tr>
</tbody>
</table>

Source: The Plan Participation Puzzle, LIMRA Secure Retirement Institute, 2010
In a 2011 paper, Professor Jeremy Bailenson reported that those who had seen their future selves in the virtual mirror subsequently put twice as much money into a savings account as those who hadn't.
Fidelity’s Net Benefits lets people see how their savings habits compare with others’
Retiree Portfolio Longevity With Immediate Annuity

Source: LIMRA SRI analysis. Illustration of 1969 to 1993, the worst 25-year period out of 62 possible scenarios since 1926. The portfolio has an asset allocation of 42.5 percent large company stocks, 17.5 percent small company stocks, and 40 percent intermediate-term government bonds and is rebalanced annually. An annual payout rate of 6.00 percent was based on actual single-life immediate annuity quotes with inflation adjustments for a hypothetical 70-year-old male in April 2013. The initial withdrawal amount was $4,500 or 4.5 percent of beginning assets; thereafter annual withdrawals were adjusted based on the prior year’s inflation rate. The hypothetical portfolio had a 50-basis-point charge assessed annually (following the withdrawals and the investment growth or loss).