RETIREMENT INCOME INSTITUTE Alliance for Lifetime Income

RAISING ANNUITY AWARENESS STARTS WITH LONGEVITY LITERACY

BY SURYA KOLLURI AND PAUL YAKOBOSKI

Retirement readiness means financial preparation for a post-work life that could last three decades or more. Unfortunately, most Americans don't understand how long people tend to live in retirement—a sensibility known as *longevity literacy* that matters for successfully managing a retirement portfolio during both accumulation and decumulation.

In a survey of U.S. adults by the TIAA Institute and the Global Financial Literacy Excellence Center, only 37% demonstrated "strong longevity literacy" by correctly identifying life expectancy at age 60.¹ 10% of respondents overestimated life expectancy at 60, while 25% underestimated it. 28% responded "don't know" and are considered to have "poor longevity literacy." All told, more than one-half of adults (53%) demonstrate a lack of longevity literacy which can jeopardize their retirement readiness.

In fact, the same data show that longevity literacy is associated with better retirement readiness. Retirees with strong longevity literacy were more likely to plan and save for retirement while still working. Among those with strong longevity literacy, 81% saved regularly for retirement and 54% tried to determine how much they needed to save. The analogous figures among retirees with poor longevity literacy were 57% and 30%, respectively.

In addition, among retirees who saved for retirement, those with strong longevity literacy tended to know more about ways to draw income from savings during retirement: 42% reported having a lot of decumulation knowledge compared with 27% of those with poor longevity literacy.²

Not surprisingly then, retirees with strong longevity literacy more often experience better financial outcomes. 83 percent enjoy a lifestyle that meets or exceeds pre-retirement expectations, 40% typically find it very easy to make ends meet, and 40% are very confident that they have enough money to live comfortably throughout retirement.³ The analogous figures among their peers with poor longevity literacy are 63%, 23%, and 25%, respectively.

IMPLICATIONS

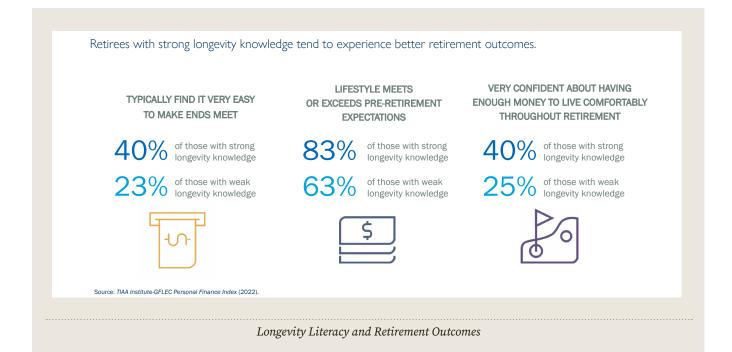
Financial professionals should prioritize cultivating longevity literacy among their clients, especially when discussing adequate accumulation and appropriate decumulation. Longevity literacy enables investors to successfully manage longevity risk in a retirement portfolio. For example, an investor with strong longevity literacy will inevitably place greater value on what annuitization provides – a consistent stream of

^{1.} There were analogous versions of the question for men and women.

^{2.} All three behaviors were equally common among those overestimating life expectancy and those demonstrating strong longevity

literacy. This is not surprising since the former have a frame of reference based on a view of a relatively long retirement.

^{3.} Again, outcomes among those overestimating 60-year-old life expectancy are close to the outcomes among those with strong longevity literacy.



income for as long as you live, no matter how long you live – than someone with poor longevity literacy. Those with strong longevity literacy are far more likely to be retirement ready.

This Institute Note is based on "Financial literacy, longevity literacy, and retirement readiness: The 2022 *TIAA Institute-GFLEC Personal Finance Index,*" available here: www.tiaa.org/content/dam/tiaa/institute/pdf/insights-report/2023-01/longevity literacy financial literacy and retirement_readiness.pdf

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