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ABSTRACT

The year 2024 marks the beginning of the "Peak 65® Zone," the largest surge of retirement age Americans turning 65 in our nation's history, and fewer employers offer a traditional defined-pension retirement plan that provides much needed protected income guaranteed throughout retirement. The old retirement system no longer fits the needs of today's American workforce. The result is that more Americans are currently at risk of entering retirement with Social Security as their only means of protected income, leaving many exposed to financial insecurity and lacking sufficient, reliable, and protected retirement income that will last for the rest of their lives. It's time for a new retirement security framework that focuses on the need for sufficient protected income in retirement.

THE PEAK 65® ZONE IS HERE – CREATING A NEW FRAMEWORK FOR AMERICA'S RETIREMENT SECURITY

JASON J. FICHTNER, PhD
EXECUTIVE DIRECTOR , RETIREMENT INCOME INSTITUTE
ALLIANCE FOR LIFETIME INCOME

INTRODUCTION

The year 2024 marks the beginning of the "Peak 65® Zone," the largest surge of retirement age Americans turning 65 in our nation's history.[1] Over 4.1 million Americans will turn 65 each year through 2027, which is more than 11,200 every day.[2] Unfortunately, the country's public and private sector retirement systems have become obsolete, as has the now-antiquated retirement planning approach of focusing solely on accumulating a lumpsum of savings rather than the actual income people will need for a retirement that could last 20, 30 or more years. The old metaphor of the three-legged stool of retirement planning—employer pensions, personal savings, and Social Security—no longer holds.[3] Many households face an uncertain financial future in retirement, with one measure suggesting that about half of all households are "at risk" of not having sufficient resources to maintain their standard of living in retirement.[4] Retirees face a challenge of having enough income in retirement.[5] And the nation's retirees face a growing gap in the level of protected income they need and can count on throughout retirement. One research paper estimates that for households with insufficient income in

1. This paper is an update to "The Peak 65 Generation – Creating a New Retirement Security Framework," Published March 30, 2021. https://www.protectedincome.org/research/the-peak-65-generation-creating-a-new-retirement-security-framework/. Data has been updated where appropriate, including updated Census and Social Security Administration data. https://www.census.gov/data/datasets/2023/demo/popproj/2023-popproj.html
2. The data used for this calculation are from the Social Security Administration. https://www.ssa.gov/OACT/HistEst/Population/2023/Population2023.html & https://www.ssa.gov/OACT/HistEst/Population/2023/SSPopDec_TR2023.xlsx
3. https://www.ssa.gov/history/stool.html
4. https://crr.bc.edu/project-page/national-retirement-risk-index/, accessed December 27, 2023.
5. For a review of the literature and evidence, see, for example: "How Will Retirement Saving Change by 2050? Prospects for the Millennial Generation." Gale, Gelfond and Fichtner. March 2019. https://www.brookings.edu/wp-content/uploads/2019/03/How-Will-Retirement-Saving-Change-by-2050.docx.pdf

People Turning Age 65

2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
3,910,000	3,980,000	4,070,000	4,030,000	4,100,000	4,180,000	4,120,000	4,120,000	4,090,000	4,070,000	3,880,000

Data Rounded. Source: Social Security Administration

retirement, the gap amounts to an annual shortfall of $7,050. That would amount to an annual national retirement income gap of approximately $230 billion in 2040.[6]

Several economic and demographic factors have contributed to this problem. First, very few private-sector employers still offer a traditional defined-pension retirement plan providing protected income that is guaranteed throughout retirement. This means more Americans are entering retirement with Social Security as their only means of protected income, leaving many exposed to financial insecurity.[7]

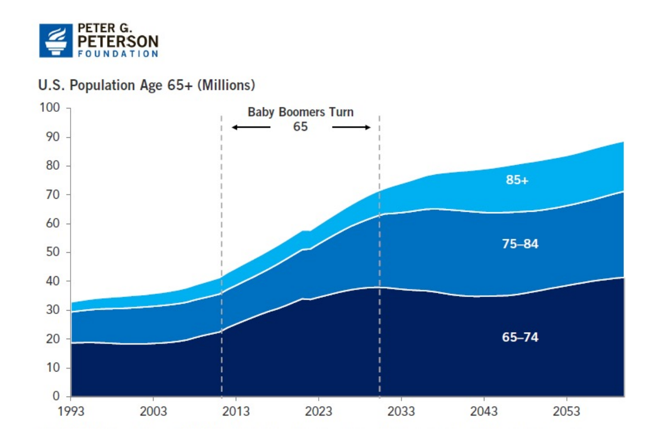
Second, since the number of people retiring with a traditional pension has declined significantly over the past several decades, most people are now saving for retirement in defined-contribution plans. This has shifted the nature of protected income in retirement from receiving pension payouts as income in retirement to replacing that pension income with protected income solutions generated from defined-contribution plan assets.[8] As more people enter retirement with a pension, the risk and burden of funding adequate income has shifted entirely to the individual, and many are unprepared to deal with the vast amount of information necessary to make optimal financial retirement income decisions.[9]

Third, a volatile investment market makes it challenging for retirees to generate sufficient and consistent risk-free new income from their retirement savings that keeps pace with inflation and equally important, can last throughout retirement. In recent years, a persistent low-interest rate environment made it difficult for retirees to generate sufficient, if any, income from financial products like certificates of deposit and money market funds. While interest rates are much more favorable today,[10] uncertainty over whether higher interest rates will persist or fall adds further complexity and risk to the retirement income challenge facing retirees. Further, relying on equities and bonds as a primary option for meaningful income generation on savings creates higher levels of ongoing risk for retirement income management, including exposure to sequence of return risk, where negative investment returns early in retirement cannot be overcome.[11]

Fourth, a significant percentage of people are claiming Social Security benefits early and missing out on the larger monthly benefits they could receive if they delayed claiming for just a few more years, depriving them of a much more robust, fully protected income stream throughout their retirement.[12]

As a result of these changes in our nation's retirement system, many Americans lack sufficient, reliable protected retirement income that will last for the rest of their lives, while their life expectancy has increased in recent decades. It's time for a new retirement security framework that focuses on the need for sufficient protected income in retirement. This will require fundamental policy changes by employers, the broader private sector, and government. Fortunately, bipartisan support led to the passage of both the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act),[13] and the Securing a Strong Retire-

6. "The Cost of Doing Nothing: Federal and State Impacts of Insufficient Retirement Savings." ESI Econsult Solutions, Inc. May 2023. Available at: https://econsultsolutions.com/wp-content/uploads/2023/05/Impacts_of_Insufficient_Retirement_Savings_May2023.pdf
7. A Survey by the Alliance for Lifetime Income estimates that 60% of households do not have a source of protected income outside of Social Security. See: https://www.allianceforlifetimeincome.org/feature/landmark-study-finds-number-of-protected-households-rises-and-five-profiles-of-americans-planning-for-retirement/
8. "The Changing Nature of Protected Income in Retirement." John Sabelhaus. Retirement Income Institute. July 2022. https://www.protectedincome.org/wp-content/uploads/2022/07/RP-09-Sabelhaus_v3.pdf
9. See, for example: "The Retirement Income Challenge in 401(k) Plans: Overcoming Legal Obstacles." Fred Reish and Bruce Ashton. Retirement Income Institute. January 2022. https://www.protectedincome.org/wp-content/uploads/2022/04/RP-04-ReishAshton_r2.pdf and "Risk Literacy in the U.S.: New Evidence and Implications for Retirement Planning and Financial Fragility." Lusardi, et al. December 2023. https://www.protectedincome.org/research/risk-literacy-in-the-us-new-evidence-and-implications-for-retirement-planning-and-financial-fragility/
10. Historical CD Interest Rates 19984-2023. Bankrate.com. November 30, 2023. Accessed December 27, 2023. https://www.bankrate.com/banking/cds/historical-cd-interest-rates/
11. https://retirementresearcher.com/navigating-one-greatest-risks-retirement-income-planning/
12. See, for example: "How to Help Americans Claim Social Security at the Right Age." Fichtner, Koenig, Akabas and Gladstone, Bipartisan Policy Center. August 2020. https://bipartisanpolicy.org/download/?file=/wp-content/uploads/2020/08/BPC-Economy-Brief-SS-Claiming.pdf



The elderly population is growing rapidly and living longer

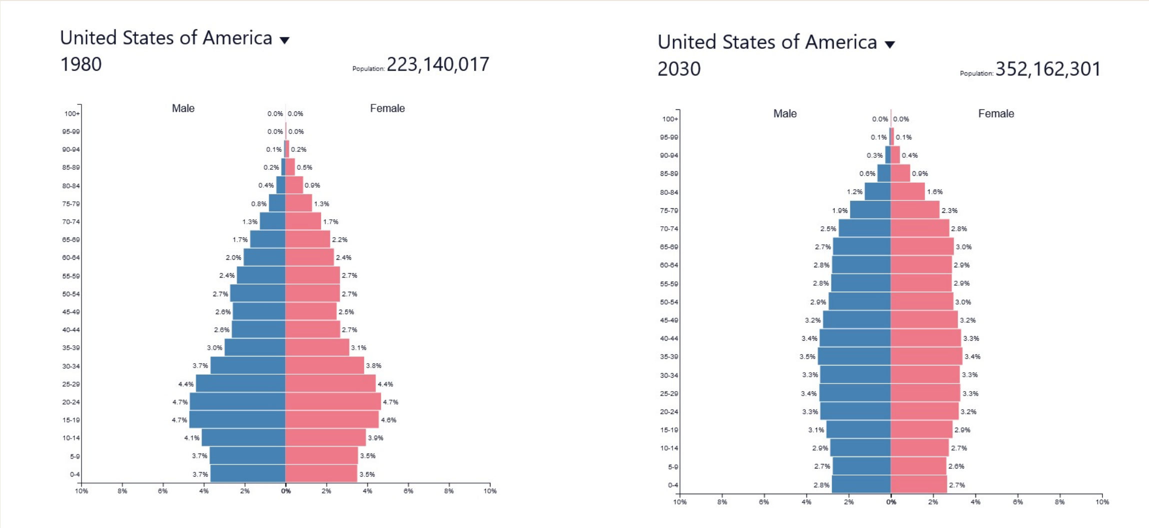
Source: https://www.pgpf.org/sites/default/files/PGPF-Chart-Pack.pdf updated December 2023 and accessed December 27, 2023

ment Act of 2022 (SECURE 2.0),[14,15] both which greatly improved the environment for creating a new security framework focusing on the importance of protected income in retirement. The Secure Act provided a provision that made it easier for a retirement plan sponsor to offer an annuity option in a defined-contribution plan. This helps employers to offer an annuity option, traditionally associated with defined-benefit pensions, within a defined-contribution retirement plan. Secure 2.0 increased the amount that individuals can move into a qualified longevity annuity contract (QLAC).[16]

The baby boom generation consists of people born after World War II, from 1946 to 1964. There are currently an estimated 72 million people in the boomer generation based on the 2020 U.S. Census, a decline from an estimated 77 million from 2010.[17] The tail-end of the boomer generation can be called the Peak 65 generation, because beginning in 2024 an average of over 4.1 million people will turn 65 each year through 2027, which is more than 11,200 every day.[18] By the year 2030, all baby boomers will be age 65 or older.[19] Additionally, by the end of the decade the estimated number of people age 65 or older (71 million) will be larger than the number of estimated people under the age of 18 (68 million).[20] The ratio of beneficiaries to workers has important consequences and implications for the financing of major retirement programs, such as Social Security. As the ratio of people relying on benefits increases relative to the number of workers, the cost of the program as a share of taxable payroll increases.[21]

Further, approximately one-fifth of the US population will have reached age 65 by 2030, the traditional age associated with retirement. In addition, 2024 marks a historic reversal, when there will be more Americans 65 or over than children under age 15.[22] These demographic changes will have major implications for the country's fiscal finances, as well as the retirement security for Boomers and generations that follow.[23]

13. https://www.akingump.com/en/news-insights/president-trump-signs-secure-act-into-law.html
14. https://www.captrust.com/resources/secure-2-0-act-passes/
15. https://www.groom.com/resources/summary-of-provisions-in-the-securing-a-strong-retirement-act-h-r-2954/
16. For a summary of the retirement provisions in both Secure Acts, see: https://www.employeefiduciary.com/blog/the-secure-act-of-2019-an-analysis-of-key-401k-changes and https://www.employeefiduciary.com/blog/secure-act-2.0-summary
17. https://www.census.gov/library/publications/2023/decennial/c2020br-06.html
18. https://www.ssa.gov/OACT/HistEst/Population/2023/Population2023.html & https://www.ssa.gov/OACT/HistEst/Population/2023/SSPopDec_TR2023.txt
19. https://www.census.gov/library/stories/2023/05/2020-census-united-states-older-population-grew.html
20. https://apnews.com/article/growth-population-demographics-race-hispanic-f563ebc4537f83792f3f91ba5d7cdade
21. See: Table V.A3, https://www.ssa.gov/oact/TR/2023/V_A_demo.html
22. https://thehill.com/opinion/campaign/554495-the-historic-reversal-of-americas-population-2024/
23. https://link.springer.com/article/10.1057/s11369-018-0066-4

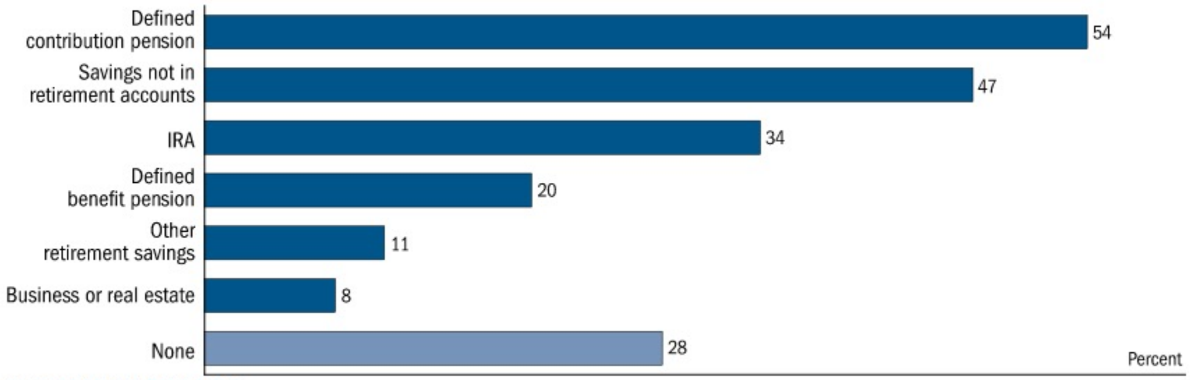


Source: https://www.populationpyramid.net/united-states-of-america/

When people in the Peak 65 generation entered the labor market in 1980, approximately 60% of private sector workers relied on the protected income offered through a pension plan as their only retirement account, as compared to 4% in 2020.[24] According to data released in 2023 by the U.S. Bureau of Labor Statistics, only 19% of all workers participate in a pension plan.[25] Breaking out the data based on access, 10% of civilian nonunion workers had access to a defined-benefit pension, while 66% of private sector union employees had access to a pension.[26] Though a smaller part of the overall labor force, pensions are still popular with private sector union employees and also with workers employed in federal, state and local governments.[27]

Based on the number of active participants in a retirement plan, the number of participants in defined-benefit is dwarfed by those in defined-contribution plans, with 31.9 million defined-benefit participants, including 12 million private sector participants, out of 142.3 million total participants (defined-contribution and defined-benefit private sector plans).[28] Further, based on data from the Federal Reserve, for those non-retirees with some form of retirement savings, 54% reporting saving in a defined-contribution plan, while only 20% reported having a defined-benefit pension.[29] Social Security is still by far the most frequent source of income for those age 65 or older, with 92% reporting receiving Social Security benefits.[30]

24. https://money.cnn.com/retirement/guide/pensions_basics.moneymag/index7.htm?iid=EL
25. https://pensionrights.org/resource/how-many-american-workers-participate-in-workplace-retirement-plans/
26. https://www.bls.gov/news.release/pdf/ebs2.pdf
27. See, for example: https://www.bls.gov/news.release/pdf/ebs2.pdf and https://www.bls.gov/opub/btn/volume-12/how-do-retirement-plans-for-private-industry-and-state-and-local-government-workers-compare.htm
20. https://www.ebri.org/content/workplace-retirement-plans-facts-and-figures, January 19, 2023.
29. Respondents were allowed to select more than one answer. https://www.federalreserve.gov/publications/2023-economic-well-being-of-us-households-in-2022-retirement-investments.htm
30. Respondents were allowed to select more than one answer. Further, the type of pension was not specified, so pension income may include income from defined benefit plans and defined contribution plans. https://www.federalreserve.gov/publications/2023-economic-well-being-of-us-households-in-2022-retirement-investments.htm



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Note: Among non-retirees. Respondents could select multiple answers.

Forms of retirement savings among non-retirees

Source: https://www.federalreserve.gov/publications/2023-economic-well-being-of-us-households-in-2022-retirement-investments.htm

Income source	65+	Overall
Social Security (including Old-Age and DI)	92	78
Pension	65	56
Interest, dividends, or rental income	47	42
Wages, salaries, or self-employment	25	32
Cash transfers, other than Social Security	5	9

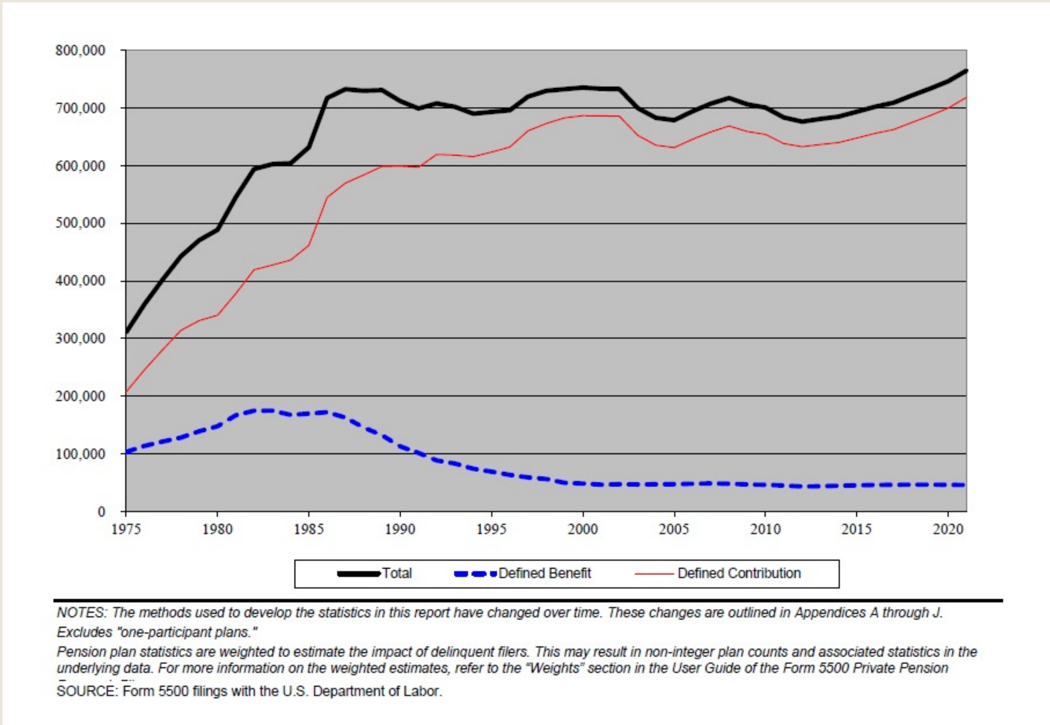
Note: Among retirees. Respondents could select multiple answers. Sources of income include the income of a spouse or partner. DI is disability insurance.

Sources of income among retirees (by age)

Source: https://www.federalreserve.gov/publications/2023-economic-well-being-of-us-households-in-2022-retirement-investments.htm

The dramatic shift away from defined-benefit pension plans to defined-contribution plans can be seen more plainly in the following graph provided by the U.S. Department of Labor (DOL).[31] According to the DOL, there were 765,124 retirement plans comprising of 718,736 defined-contribution plans and only 46,388 defined-benefit plans. In 1975, defined-benefit plans represented 33 percent of all retirement plans. As of 2021, defined-benefit plans represented only 6 percent of all retirement plans.

31. https://www.dol.gov/sites/dolgov/files/ebsa/researchers/statistics/retirement-bulletins/private-pension-plan-bulletin-historical-tables-and-graphs.pdf

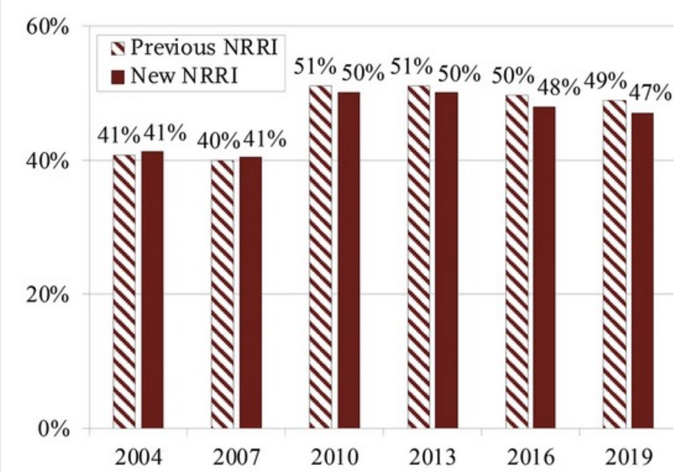


Number of Pension Plans, by plan type, 1975-2021[32]

Unfortunately, for those workers who still have access to a traditional defined-benefit pension plan, the news is not all good, as many of the remaining pension plans are underfunded, though the funding gap has improved over the past few years.[33] For example, an Urban Institute online reference cites circa 2020 reports from the Pew Charitable Trusts and Boston College Retirement Center that "inadequate contributions have left pension plans underfunded by at least $1 trillion and possibly by as much as $3 to $4 trillion depending on modeling assumptions."[34] One report estimates the unfunded state pension liabilities to be closer to $7 trillion.[35]

A series of rare events and market volatility since 2019—including the COVID-19 pandemic, massive government stimulus, low interest rates, rising inflation, then rising interest rates—have resulted in a volatile investment market for both equities and bonds.[36] These recent market swings greatly impact the funding status of pension plans[37] in both the public and private sectors.[38] However, a July 2022 report by The Pew Charitable Trusts reports that the estimated $1.25 trillion in unfunded state and local pension benefits in 2019 fell to under $1 trillion at the end of fiscal year 2021.[39] Pew notes however that, "For most states, unfunded pension liabilities are the

32. https://www.dol.gov/sites/dolgov/files/ebsa/researchers/statistics/retirement-bulletins/private-pension-plan-bulletin-historical-tables-and-graphs.pdf
33. See, for example: https://equable.org/unfunded-liabilities-for-state-pension-plans-in-2023/
34. https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/projects/state-and-local-backgrounders/state-and-local-government-pensions
35. https://alec.org/publication/unaccountable-and-unaffordable-7th-edition/
36. See, for example: https://www.macrotrends.net/2603/vix-volatility-index-historical-chart and https://www.cnbc.com/quotes/US10Y
37. https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2022/05/state-public-pension-fund-returns-expected-to-decline
38. https://www.pionline.com/pension-funds/funded-status-us-corporate-plans-edged-2019-report
39. https://www.pewtrusts.org/en/research-and-analysis/articles/2022/07/07/states-unfunded-pension-liabilities-persist-as-major-long-term-challenge



Sources: Authors' calculations. Previous NRRI numbers are from Munnell, Chen, and Siliciano (2021).

Source: https://crr.bc.edu/the-national-retirement-risk-index-version-2-0/

largest of three major long-term obligations weighing on their future finances, ahead of unfunded retiree health care benefits for public employees and outstanding debt."[40]

The effective elimination of defined-benefit plans, which distribute protected income in retirement, in favor of defined-contribution plans (e.g., 401(k), 403(b), etc.), means that millions of Americans lack sufficient protected income required for a financially secure retirement. In other words, they now lack the tools necessary to adequately protect against market risk, health risk, and longevity risk.

Notably, there are only three types of protected lifetime income available in the U.S. today – pensions, Social Security, and annuities. The National Retirement Risk Index (NRRI) created by the Center for Retirement Research at Boston College, and recently updated with a new methodology, estimates that approximately 50% of households are "at risk" of not having enough to maintain their standard of living in retirement.[41]

Not surprisingly, lower-income households are most at risk. The following table shows the percentage of households "at risk" at age 65 in 2004, 2010 and 2019, further categorized by low-, middle- and high-income.

Wealth group	2004	2010	2019
All	41%	50%	47%
Low	64	75	73
Middle	34	47	40
High	26	28	28

Source: https://crr.bc.edu/the-national-retirement-risk-index-version-2-0/

A report prepared for the Pew Charitable Trusts by ESI Econsult Solutions, Inc., estimates that 61% of elderly households will be at risk of not having sufficient income in retirement, a gap that amounts to an annual shortfall of $7,050. That would amount to an annual national retirement income gap of approximately $230 billion in 2040.[42] Further, the study also estimates the im-

40. https://www.pewtrusts.org/en/research-and-analysis/articles/2022/07/07/states-unfunded-pension-liabilities-persist-as-major-long-term-challenge
41. https://crr.bc.edu/the-national-retirement-risk-index-version-2-0/
42. "The Cost of Doing Nothing: Federal and State Impacts of Insufficient Retirement Savings." ESI Econsult Solutions, Inc. May 2023. Available at: https://econsultsolutions.com/wp-content/uploads/2023/05/Impacts_of_Insufficient_Retirement_Savings_May2023.pdf

pact the retirement income gap will have on federal and state expenditures. The retirement income gap will put additional financial pressure of federal and state health and safety net programs (not including Social Security and Medicare, resulting in a fiscal gap of approximately $1.3 trillion over the 20-year period from 2021-2040 ($990 billion federal and $334 billion state-level).[43]

It is important to note that the retirement income challenge facing the Peak 65 generation also faces younger workers. As the Boston College research also shows, those at risk also include future retirees that are today only in their 30s. The following table shows the percentage of households "at risk" at age 65 by their age group in 2004, 2010 and 2019. Forty-nine percent of those who were age 30-39 in 2019 are "at risk" of not being able to maintain their standard of living when they turn 65.

Age group	2004	2010	2019
All	41%	50%	47%
30-39	49	56	49
40-49	43	54	46
50-59	32	41	46

Source: https://crr.bc.edu/the-national-retirement-risk-index-version-2-0/

Over the past few decades, Americans have been generally well-informed on the need to save for retirement.[44] However, much of the focus has been on the accumulation side of the retirement equation.[45] And for good reason, as this was the retirement planning phase that many Americans found themselves in. Workers now have an abundant amount of retirement savings vehicles to choose from, including target-date funds that automatically rebalance the portfolio asset mix between equities and bonds as a person gets older and closer to retirement.[46] However, due to a decline in defined-benefit pension plans, there is now a need for a focus on the decumulation phase of retirement.[47]—a task for which many Americans are not well-informed.

As the Peak 65 generation enters the Peak 65 Zone, the universe of retirement security stakeholders that so fervently sought to address the generation's need to save—through education, public policy and product innovation—must now address its need to manage those saved assets in a way that protects their standard of living. Employer-sponsored defined-contribution plans are now the primary manner for people to save for their retirement,[48] though many still lack access to an employer-sponsored plan. Therefore, even in a world where employer provided pensions are going away, the employer still plays an essential role in helping people save for their retirement.[49]

A new retirement security framework recognizes the role of employers and the private sector broadly, and focuses on recreating what was so valuable about defined-benefit retirement plans, namely distributing protected income throughout retirement, while avoiding the downsides of high-cost and employer underfunding, and even bankruptcy, which made traditional pension plans unsustainable. The goals of the new retirement security framework call for the use of annuities on top of Social Security. It is the best approach to enable households to protect their financial security in retirement by creating their own personal pension plan.

THE CHANGING RETIREMENT LANDSCAPE

Traditionally, retirement savings was thought to come from three main sources: an employer-provided defined-benefit pension plan; personal savings; and Social Security. This is the so-called three-legged stool of retirement security. One could easily assume using this framing that one-third of income in retirement should come from each of these three sources. In fact, Social Security was designed to replace about 40% of income

43. "The Cost of Doing Nothing: Federal and State Impacts of Insufficient Retirement Savings." ESI Econsult Solutions, Inc. May 2023. Available at: https://econsultsolutions.com/wp-content/uploads/2023/05/Impacts_of_Insufficient_Retirement_Savings_May2023.pdf
44. https://americasaves.org/
45. https://www.thebalance.com/what-is-the-10percent-savings-rule-2388583
46. https://www.finra.org/investors/learn-to-invest/types-investments/retirement/target-date-funds-find-right-target-you
47. https://www.forbes.com/sites/stephenchen/2019/09/30/why-decumulation-is-the-new-accumulation/?sh=207fa8cc24ed
48. https://www.americanbenefitscouncil.org/pub/?ID=273C4F1A-1866-DAAC-99FB-93C2A6ED0E13
49. https://pensionrights.org/resource/how-many-american-workers-participate-in-workplace-retirement-plans/

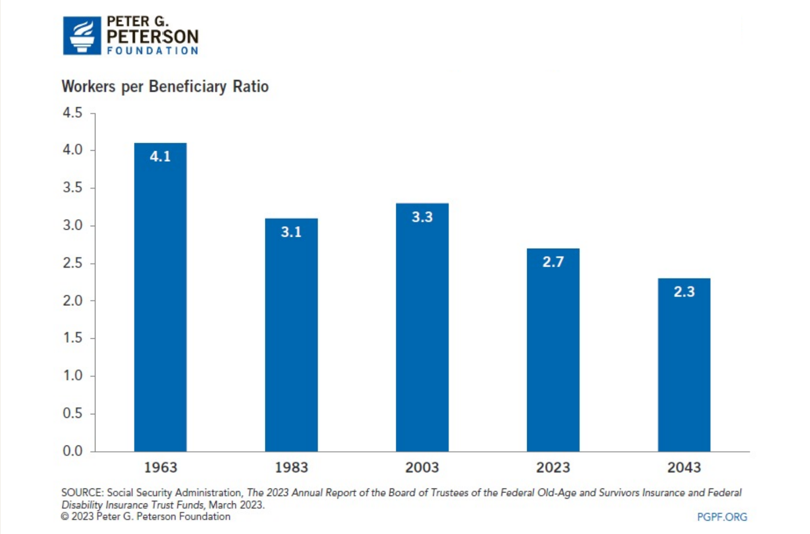
in retirement for the average worker,[50] and today replaces about 37% for the average worker.[51] Therefore, for someone with an employer defined-benefit pension, that would mean two-thirds of their income in retirement was "protected" through some sort of annuity – a combination of Social Security and a regular distribution from a pension.

However, Social Security is now the principal source of income for most retirees. According to the Social Security Administration (SSA), based on research released in 2021 using 2015 data, Social Security benefits represent approximately 30% of the income for those over age 65.[52] Further, based on that same analysis, Social Security provides 50% or more of income for 37% of men and 42% of women age 65 and over, while providing 90% or more of income for 12% of men and 15% of women age 65 and older.[53,54] Yet this wasn't always the case. Today, in order to recreate the income protection from a pension, some financial planners recommend around 20%-25% of your retirement assets be in an annuity, not including Social Security benefits.[55] As a rule of thumb, retirement assets should be able to provide roughly 70-75% of pre-retirement income,[56] and some recommend a higher replacement rate of 85%.[57] But it is important to stress that one-size does not fit all.[58] Some low-income households won't require any additional annuitization beyond Social Security.[59] However, for many middle- and high-income earners, some additional annuitization beyond Social Security benefits is necessary to help mitigate risk and maintain their standard of living in retirement.

Social Security retirement benefits are progressive, replacing a higher percentage of a worker's pre-retirement income for lifetime lower-wage workers than higher-wage workers. For example, according to the SSA, on average, for those claiming Social Security benefits at their full-retirement age, the replacement rate percentage ranges from as much as 75 percent for very low earners, to about 27 percent for high earners, with about 40 percent for medium earners.[60] Hence, if a goal is to have roughly two-thirds of retirement income derived from protected sources, then many retirees either currently lack, or will lack, sufficient protected income in retirement to address known risks.

Economic insecurity is also on the rise. While age 65 is the age long considered by people as the age for retirement, most Americans begin retiring sooner. Sixty-one percent of retirees exit the workforce before age 65—often sooner than they planned according to research conducted by the Transamerica Center for Retirement Studies.[61] Similarly, research by LIMRA found that 51% of people who retire do so between the ages of 61-65.[62] Further, according to research by the Alliance for Lifetime Income, over half (53%) of all retirees retired as the result of circumstances beyond their control, not because they reached the age they identified as their goal, nor reached a certain savings amount, nor because they wanted to pursue hobbies.[63] According to research by the Pew Research Center, 28.6 million boomers reported being out of the labor force due to retirement in the third quarter of 2020.[64] This represents a 3.2 million increase from the same quarter in 2019. Some of

50. https://www.ssa.gov/myaccount/assets/materials/workers-61-69.pdf
51. https://www.cbpp.org/sites/default/files/atoms/files/8-8-16socsec.pdf
52. https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf SSA 2023 Release, accessed December 27, 2023.
53. https://www.ssa.gov/policy/docs/ssb/v77n2/v77n2p1.html and https://www.ssa.gov/policy/docs/workingpapers/wp116.html
54. https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf SSA 2023 Release, accessed December 27, 2023.
55. https://alex.fyi/blog/how-much-should-i-allocate-to-an-income-annuity/
56. https://crr.bc.edu/working-papers/what-replacement-rates-do-households-actually-experience-in-retirement/
57. https://www.securian.com/insights-tools/articles/retirement-income-replacement-ratio.html
58. https://www.forbes.com/sites/kotlikoff/2018/06/22/the-70-replacement-rate-in-retirement-is-rubbish/?sh=2715a0757917
59. Note: Many low-income retirees are not homeowners and continue to rent throughout retirement. An unrelated study by the Urban Institute on replacement rates of unemployment insurance during the Covid-19 pandemic found that a 70% replacement rate would leave many low-income workers unable to pay for basic living expenses such as rent. Hence, low-income households may need close a 100% replacement rate or more during retirement to maintain the living standards they had during working years. See: https://www.urban.org/urban-wire/moving-70-percent-income-replacement-unemployment-insurance-benefits-will-disproportionately-hurt-low-income-renters
60. https://www.ssa.gov/pubs/EN-05-10024.pdf - SSA Understanding the Benefits, 2023.
61. www.transamericacenter.org/docs/default-source/retirees-survey/retirees_survey_2015_report.pdf (slide 22).
62. https://www.financialsamurai.com/age-people-retire-america/
63. https://www.protectedincome.org/news/americans-look-to-annuities-as-key-solution-to-avert-retirement-income-crisis/
64. https://www.pewresearch.org/fact-tank/2020/11/09/the-pace-of-boomer-retirements-has-accelerated-in-the-past-year/



As the population ages, fewer workers will be paying taxes to support each Social Security beneficiary

Source: https://www.pgpf.org/sites/default/files/PGPF-Chart-Pack.pdf updated December 2023 and accessed December 27, 2023

the increase in retirements has been attributed to the COVID-19 pandemic.[65] Research published by the Federal Reserve Bank of St. Louis estimates that there were approximately 2.4 million excess retirees as of April 2023.[66] Therefore, the historic retirement boom marked by the beginning of the "Peak 65® Zone" in 2024 likely began several years earlier.

Though the decision to start receiving Social Security benefits can be contemporaneous with retirement, electing to receive benefits is not necessarily a predictor of leaving the workforce (Bosworth, 2010). In actuality, the decision on whether to stop work can be completely independent from the decision to begin collecting Social Security benefits. For example, a worker might choose to stop working but delay receipt of Social Security benefits, to take advantage of higher monthly benefit amounts that accrue the later one waits to claim (up to age 70). Or a worker might decide to elect retirement benefits as early as 62, receiving a permanently reduced monthly benefit for life, yet continue to work full or part-time for continued income support.

SOCIAL SECURITY

It is also possible that many people think that Social Security will meet their retirement annuity needs. But there are risks in relying on Social Security for all of one's retirement income. As mentioned previously, Social Security was designed to replace about 40% of income in retirement for the average worker,[67] and today replaces about 37% for the average worker.[68] Also, the ratio of the number of workers supporting the system through payroll taxes to the number of people receiving benefits will decline, stressing Social Security's finances.

According to the Social Security Trustees, the combined trust funds face a financial shortfall of $21.2 trillion in present value through 2097 and $65.9 trillion over an

65. https://www.pewresearch.org/fact-tank/2020/11/09/the-pace-of-boomer-retirements-has-accelerated-in-the-past-year/ and https://www.stlouisfed.org/on-the-economy/2023/jun/excess-retirements-covid19-pandemic
66. https://www.stlouisfed.org/on-the-economy/2023/jun/excess-retirements-covid19-pandemic
67. https://www.ssa.gov/myaccount/assets/materials/workers-61-69.pdf
68. https://www.cbpp.org/sites/default/files/atoms/files/8-8-16socsec.pdf

	OASI	DI	OASDI	HI
First year cost exceeds income excluding interest[a]	2010	2044	2010	2025
First year cost exceeds total income including interest[a]	2021	[b]	2021	2025
Year asset reserves are depleted	2033	[c]	[d]2034	2031

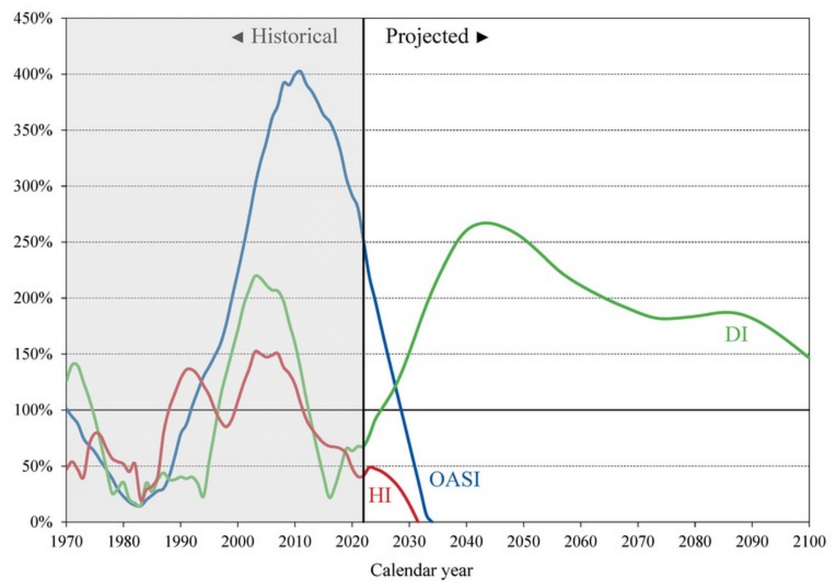
[a] Dates indicate the first year a condition is projected to occur and then persist each year through 2097.

[b] Projected annual balances remain positive through 2097.

[c] The trust fund asset reserves are not projected to become depleted during the 75-year period ending in 2097.

[d] If the legally separate OASI and DI trust funds were combined, the hypothetical combined OASDI asset reserves would become deplete
year.

Source: https://www.ssa.gov/oact/TRSUM/tr23summary.pdf

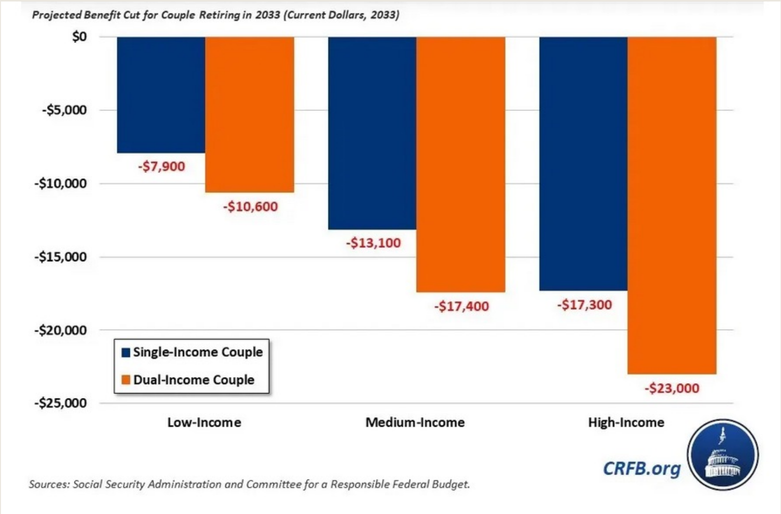


Source: https://www.ssa.gov/oact/TRSUM/tr23summary.pdf

infinite horizon.[69] Further, the combined Social Security trust funds will be depleted and unable to finance full benefits in 2034 [70] —a mere 10 years away. Although the date of depletion for the combined trust funds varies somewhat from year to year based on economic conditions, for the last 20 years the Trustee reports have consistently estimated that the combined trust funds will be exhausted between 2037 and 2042.

69. It is important to note that the Social Security program has two legally separate trust funds. The OASI and DI trust funds are legally separate because they are designed to serve different purposes and different populations. The Old-Age and Survivors Insurance (OASI) trust fund provides benefit payments to retired workers, their spouses, some children, and the survivors of deceased workers. The Disability Insurance (DI) trust fund provides benefits to disabled workers, their spouses, and children. Social Security paid out $1.244 trillion in benefits during 2022, roughly 20% of the entire $6.3 trillion 2022 federal spending. Of these benefits, roughly 88% were OASI benefits and 12% for DI benefits.

70. https://www.ssa.gov/oact/tr/2023/



Not touching Social Security means large benefit cuts

Source: https://www.crfb.org/blogs/top-10-fiscal-charts-2023

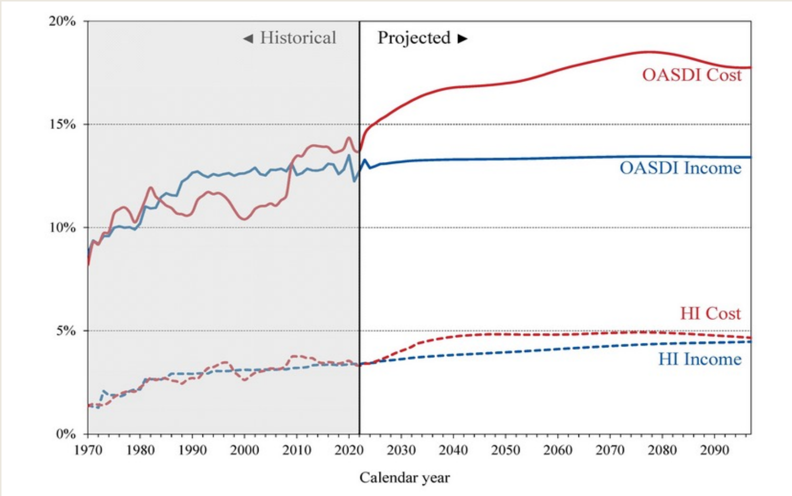
The financial problems of the Social Security program are structural and will require structural changes to benefit levels, taxation, or a combination of the two. That said, trust fund depletion does not mean bankruptcy. Social Security does not have legal borrowing authority. When the trust funds are depleted, the program can only pay out in benefits what it receives in revenue. That is a far cry from bankruptcy, which would imply that the program cannot pay benefits at all. However, unless Congress and the President act to reform Social Security, the program will only be able to pay approximately 75% of estimated benefits when the retirement (OASI) trust fund runs out of assets in 2034.

The importance of addressing Social Security's finances cannot be overstated. As illustrated by the Committee for a Responsible Federal Budget, inaction would result in large benefit reductions.[71] Any changes to the Social Security program that result in less benefits will only exacerbate the need for additional protected income strategies in retirement.

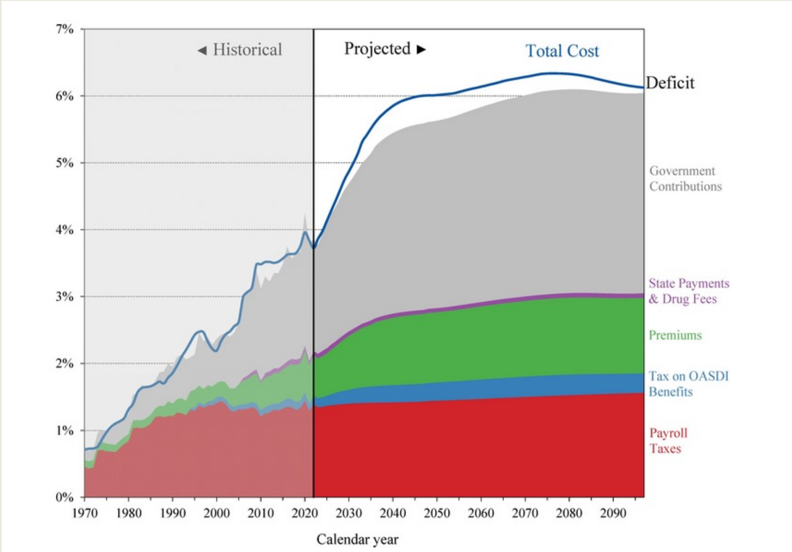
Payroll tax revenue alone is no longer sufficient to cover Social Security's cost. At the beginning of 2024, the federal government's gross national debt exceeded $34 trillion.[72] Of the $34 trillion in gross federal debt, Social Security holds approximately $2.8 trillion of the total $7 trillion in government-held debt.[73] The government will have to borrow money from the private sector to continue paying interest on the bonds held in the trust funds. Though the borrowing need will increase gradually, the increasing need to borrow for Social Security (and other federal spending) from the private market will be harder and harder over time, especially in a higher interest rate environment.[74]

Additionally, Social Security is not the only entitlement program facing financial difficulty. The Medicare program also faces a funding shortfall, with the most recent estimates suggesting that the Hospital Insurance (HI) trust fund could be depleted in 2031[75]—less than 10 years away.

71. https://www.crfb.org/blogs/top-10-fiscal-charts-2023
72. https://fiscaldata.treasury.gov/datasets/debt-to-the-penny/debt-to-the-penny
73. Accessed December 2023: https://www.treasurydirect.gov/govt/reports/pd/pd_debttothepenny.htm & https://www.ssa.gov/oact/STATS/table4a3.html
74.For a summary of estimated federal spending, revenues, deficits, and debt, see: Congressional Budget Office, https://www.cbo.gov/publication/59331
75. https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds



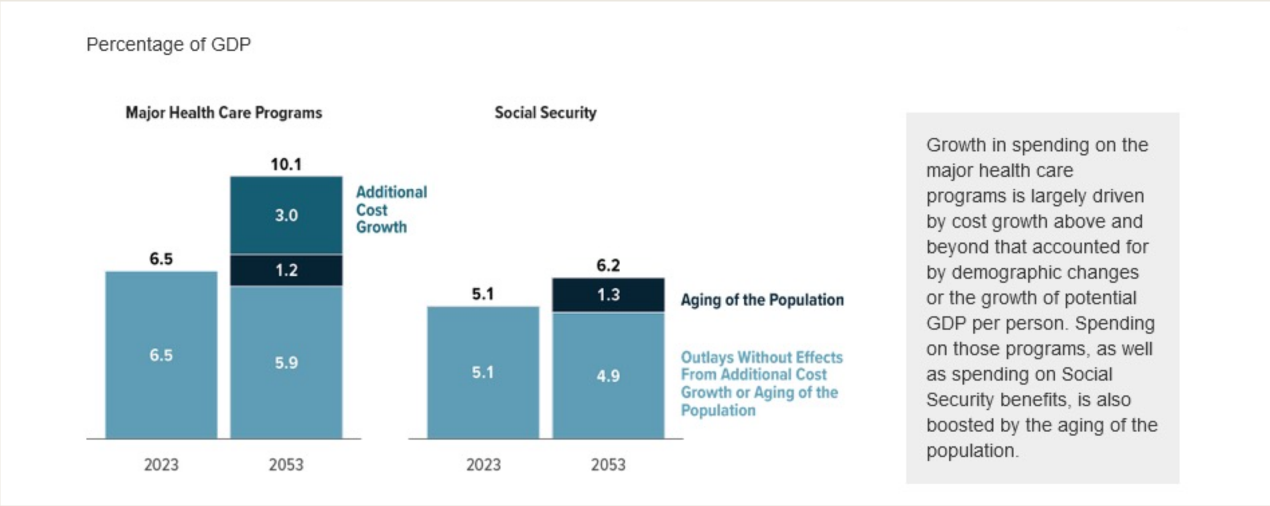
Source: https://www.ssa.gov/oact/TRSUM/tr23summary.pdf



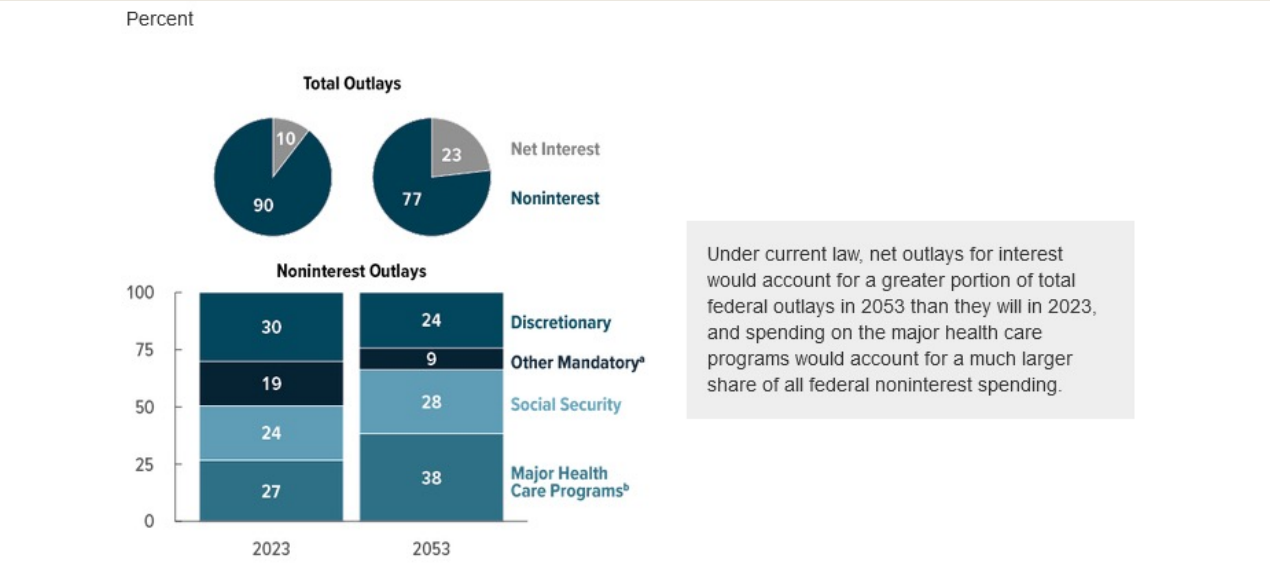
Source: https://www.ssa.gov/oact/TRSUM/tr23summary.pdf

Though Social Security will redeem the trust fund bonds gradually, the increased borrowing needs of the federal government to finance the nation's entitlement programs will expand dramatically. The financing needs of the Medicare program will compete with the funding needs of the Social Security system, further straining the country's ability to borrow money from the private sector. Health care costs could also likely increase for retirees as well. According to the Congressional Budget Office, spending on Social Security and government health care programs (including Medicare and Medicaid) will consume 64% of all non-interest spending and half of the entire federal budget (50%).[76]

76. https://www.cbo.gov/publication/56991



Composition of Growth in Outlays for the Major Health Care Programs and Social Security, 2023 to 2053



Composition of Outlays, 2023 and 2053

(Source: Congressional Budget Office: https://www.cbo.gov/publication/59331)

Though it is highly likely that more of the burden for paying for the trust fund depletion will fall on higher earners, the impact will be felt across generations and income levels. Higher-income wage earners may be subject to additional income taxes during their working years. Retirees may face higher taxes on earnings and may also be asked to pay for a greater share of health expenses. Younger generations of workers face the possibility of a triple risk of higher payroll taxes before retirement, lower retirement benefits, and higher healthcare costs. Hence, it may be financially prudent for many households to plan on additional protected income in retirement other than Social Security to fill the protected income gap, maintain their standard of living and mitigate these risks.

NEW SECURITY FRAMEWORK AND THE ROLE OF PROTECTED INCOME

While Social Security needs financial support, the program is, and will remain, the bedrock of retirement security for most Americans. Much of the focus of the *current* retirement security framework has been on the accumulation side of the equation.[77] Efforts to improve access to retirement savings vehicles and education on the importance of saving for retirement should continue to expand unabated. But a new security framework must include a focus on how protected income can provide the security necessary to maintain a given standard of living in retirement, and how to expand access and lower barriers to obtaining greater levels of protected income.

Employer-provided defined-benefit pension plans were designed to provide protected income in retirement to maintain living standards and avoid market risk. The new reality is that due to a significant decline in defined-benefit pension plans, there is now a need for a focus on the decumulation phase of retirement and employer-sponsored defined-contribution plans, which are now the primary manner for people to save for their retirement,[78] can be used to provide protected income in retirement on top of Social Security.[79]

The Bipartisan Policy Center houses both the American Savings Education Council[80] and the Funding Our Future initiative, which consists of member organizations "dedicated to making a secure retirement possible for all Americans."[81] The Funding Our Future initiative has a new take on the three-legged stool. The "Three Pillars to Strengthen American Retirement Security" consist of Social Security, making saving easier for all Americans, and, particularly important to the new retirement security framework, "transforming nest eggs into a lifetime of income."[82] As further noted, "Longer life expectancies and the erosion of traditional pensions have stretched savings. Americans need more straightforward ways to make their savings last and turn them into a lifetime of income."[83]

This new retirement security framework recognizes the role of employers and focuses on recreating what was so valuable about defined-benefit retirement plans: distributing protected income throughout retirement, while avoiding the downsides of high-cost and employer underfunding, and even bankruptcy, which made traditional pension plans unsustainable. Using annuities on top of Social Security, households can create their own personal pension plan.

Individuals face an array of risks in preparing for retirement. Will disability or layoffs stop people from working as long as they had planned and hence reduce their ability to accumulate wealth? Will assets earn the expected rate of return over time? Will a household face unexpected or uninsured health care costs, including those associated with long-term care? Will people face mental or physical declines that require expensive daily assistance or a move to a new residence? Will members of the household live longer than expected and generate higher savings needs to maintain the same living standards? Will a person lose important sources of income in retirement because a spouse or partner dies prematurely? Will children have unexpected financial needs?

If people do not have adequate saving or adequate insurance against the risks they face in retirement, they could become destitute and thus need federal assistance. In the absence of well-functioning insurance markets, people to some extent will need to save more to self-insure and be able to mitigate some of the negative consequences of bad, uninsurable outcomes. These concerns highlight the valuable role for insurance markets and the use of options that are designed to reduce

77. https://www.thebalance.com/what-is-the-10percent-savings-rule-2388583
78. https://www.americanbenefitscouncil.org/pub/?ID=273C4F1A-1866-DAAC-99FB-93C2A6ED0E13
79. https://www.usaretirement.org/millions-american-workers-still-lack-access-401k
80. https://www.asec.org/
81. https://fundingourfuture.us/about/
82. https://fundingourfuture.us/
83. https://fundingourfuture.us/

these risks, such as life insurance, retirement annuities, and long-term care insurance. When calculating the value of an annuity, research by the Center for Retirement Research at Boston College estimates that when the insurance value of annuities is taken into consideration "…the wealth equivalence measure suggests that everyone gains from purchasing annuities."[84]

A common, intuitive, and flexible approach to measuring retirement security focuses on replacement rates. A replacement rate is a ratio of post-retirement income to pre-retirement income. The target replacement rate that a household should aim for is one that will at least allow replicating pre-retirement living standards in retirement. 100 percent is not a natural benchmark for an adequate replacement,[85] however. The typical advice of financial planners is to target a replacement of 70-75% of pre-retirement income,[86] and some recommend a higher replacement rate of 85%.[87] But, as noted previously, it is important to stress that one-size does not fit all.[88]

Suppose a worker earns $100 in gross wages and has $62 left after paying work expenses, the mortgage, retirement saving contributions, health insurance, payroll taxes, and federal and state income taxes. Suppose the worker reaches age 65, pays off the mortgage, and retires. At retirement, the worker no longer needs to make payments for work expenses, the mortgage (hopefully), 401(k) contributions, and payroll taxes, while income taxes fall by perhaps one-third as income declines and because of the current benefits in the tax code for the elderly. That means the worker would only need $70 per year in retirement to replace the living standard that $100 provided during working years. This is how one arrives at a 70 percent replacement rate.[89]

An individual's monthly Social Security benefit depends on the age at which they claim. Workers who claim before their full retirement age (FRA) accept reduced monthly benefits for the rest of their lives. As a result of legislation passed in the 1980s, the FRA is gradually increasing and will reach age 67 for workers born in or after 1960. People can claim as early as age 62 (the early eligibility age, or EEA), and the earlier someone claims, the greater the benefit reduction. Conversely, someone who delays claiming benefits until after their FRA, up to age 70, receives "delayed retirement credits" in the form of permanently higher monthly benefits. Delaying claiming is equivalent to purchasing additional annuity income—income for the rest of one's life—at the cost of forgoing early benefits. As will be discussed later, one strategy for how protected income could be used to gain additional Social Security benefits would be to purchase a term annuity as a "bridge" between stopping work and claiming Social Security at either the full retirement age or age 70 facilitate maximum monthly Social Security benefits.

The figure on the following page displays the monthly benefit amounts at various claiming ages for a hypothetical worker eligible to receive $1,000 per month at the FRA of 67. By claiming at age 62 instead of age 70, the beneficiary lowers their monthly benefit by 44%. Another way of looking at this is by focusing on the gain in delaying claiming. The age 70 monthly benefit amount in this example is 77% higher than the age 62 amount. This additional benefit lasts for the rest of the beneficiary's life.

84. https://crr.bc.edu/briefs/what-is-the-value-of-annuities/
85. It should be noted that it is possible for a household to meet the adequate saving standard even if it does not save very much in financial forms. In the example above, if Social Security and a defined benefit plan replaced two-thirds of the worker's wages in retirement, very little additional saving beyond this would be required to maintain pre-retirement living standards in retirement. However, many low-income retirees are not homeowners and continue to rent throughout retirement. An unrelated study by the Urban Institute on replacement rates of unemployment insurance during the Covid-19 pandemic found that a 70% replacement rate would leave many low-income workers unable to pay for basic living expenses such as rent. Hence, low-income households may need close a 100% replacement rate or more during retirement to maintain the living standards they had during working years. See: https://www.urban.org/urban-wire/moving-70-percent-income-replacement-unemployment-insurance-benefits-will-disproportionately-hurt-low-income-renters
86. https://crr.bc.edu/working-papers/what-replacement-rates-do-households-actually-experience-in-retirement/
87. https://www.securian.com/insights-tools/articles/retirement-income-replacement-ratio.html
88. https://www.forbes.com/sites/kotlikoff/2018/06/22/the-70-replacement-rate-in-retirement-is-rubbish/?sh=2715a0757917
89. For a more detailed discussion of replacement rate measures, including pros and cons of various measures, see: "How Will Retirement Saving Change by 2050? Prospects for the Millennial Generation," by Gale, Gelfond and Fichtner. Brookings Institution. 2019. https://www.brookings.edu/wp-content/uploads/2019/03/How-Will-Retirement-Saving-Change-by-2050.docx.pdf

IF BENEFITS ARE CLAIMED AT AGE:	THE MONTHLY AMOUNT WOULD BE:
62	$700
63	$750
64	$800
65	$867
66	$933
67 (FRA)	$1,000
68	$1,080
69	$1,160
70	$1,240

Example of Claiming Age on Monthly Benefits

Source: Authors Calculations based on SSA.

The various claiming options are essentially a menu of annuities available to a beneficiary. The adjustments to monthly benefits by claiming age are meant to be actuarially neutral—meaning that a beneficiary who lives a life of average length would cost the program roughly the same amount in total lifetime benefits (adjusted for inflation) regardless of when they claimed.[90] Lower monthly benefits from claiming early will lead to lower lifetime benefits for those who live longer than average. Alternatively, those who live shorter lives than average will receive smaller lifetime benefits if they delay claiming. Regardless of the expected benefit amount, anyone who claims later secures the longevity insurance of a higher monthly benefit for life.

Claiming age can affect a household's financial security in retirement, especially for those who live longer than average.[91] The Social Security Administration projects that an average 65-year-old man will live to age 82 and the similar number for women is 85.[92,93] Further, 59% of 65-year-old men will live beyond age 80, and that 19% will reach age 90.[94] Women tend to have longer life expectancies, on average, and 71% of 65-year-old women today will live beyond age 80, almost 30% will live to at least 90, and 11% of women age 65 today will live to age 95.[95]

As an example of longevity risk, if a person claims Social Security benefits early and outlives other finan-

90. Despite the goal of actuarial neutrality, the benefit adjustments for early claiming are outdated and no longer actuarially neutral. The adjustments were last updated in 1983, and over the past 20 years, two factors—increased life expectancy and declining interest rates—have steadily steepened the early claiming penalty. Rising life expectancy straightforwardly increases the number of annuity payments a claimant can expect to receive and, consequently, compounds the lifetime penalty from early claiming. Lower interest rates have depressed the return on bonds held by the Social Security trust funds, making delayed claims somewhat more expensive to the program.
91. Longevity is based on numerous factors. The Society of Actuaries and the American Academy of Actuaries jointly sponsor an online longevity calculator, which can be accessed here: https://www.longevityillustrator.org/Home/About
92. Note that while men and women have different average life expectancies, variation also exists across racial and ethnic groups. For example, Black men and women have shorter life expectancies than white men and women, while Hispanic individuals have longer projected average life expectancies than white or Black individuals of the same sex. See Elizabeth Arias and Jiaquan Xu, National Vital Statistics Reports, Vol. 68, No. 7, June 24, 2019. Available at: https://www.cdc.gov/nchs/data/nvsr/nvsr68/nvsr68_07-508.pdf.
93. U.S. Social Security Administration, Period Life Table, 2020, as used in the 2023 Trustees Report. Available at: https://www.ssa.gov/oact/STATS/table4c6.html
94. U.S. Social Security Administration, Period Life Table, 2020, as used in the 2023 Trustees Report. Available at: https://www.ssa.gov/oact/STATS/table4c6.html
95. U.S. Social Security Administration, Period Life Table, 2020, as used in the 2023 Trustees Report. Available at: https://www.ssa.gov/oact/STATS/table4c6.html

cial assets, they may have to live on only their reduced monthly benefit for the rest of their lives. The losses are particularly acute for women and healthier Americans (often higher income) who receive the same annual income increase from deferral but can expect to receive this income over more years than the average American. Though a large body of research evidence has confirmed that it is financially advantageous for most Americans to wait beyond the EEA to claim Social Security,[96] most individuals continue to claim early.[97]

The shares of men and women who claim early have both been falling over the past two decades.[98] In fact, Americans are generally working longer and claiming later, two trends that will help build more secure retirements.[99] While these trends are encouraging, most people still claim early and many of these decisions seem to be suboptimal.[100]

The income losses from early claiming are quite large. A study published by United Income estimates that older Americans would lose a total of $3.4 trillion in potential income because of early claiming, with an average lifetime loss of $95,000 per household. The researchers also find that only 4% of older Americans claimed at the age that would maximize their wealth. Separately, only 4% waited to claim until age 70, though this research finds that about 57% of older Americans could have built more lifetime wealth if they waited to claim until then.[101] Therefore, if people need to claim Social Security before either their Social Security FRA or age 70, many people could benefit by purchasing a term annuity instead of claiming Social Security early. This strategy would serve as a "bridge" to facilitate claiming later (FRA or age 70) to maximize monthly Social Security benefits and the inflation-protected annuity value of Social Security.

POLICY CONSIDERATIONS

Traditional defined-contribution retirement plans are designed for asset accumulation during working years to provide income in retirement. Meanwhile, as discussed earlier, the number of people covered by a defined-benefit plan continues to decline. Besides Social Security, this leaves annuities as the only other retirement income option that offers protected income that is guaranteed. Hence, annuities and protected income solutions will become even more important as individuals increasingly save in defined-contribution plans.

BROAD ACCESS TO EFFICIENT PROTECTED INCOME SOLUTIONS

To foster an environment that is favorable to focusing on the role protected income needs to play in the financial security of retirees, the government and employers need to work together.[102] The government could enact regulations to promote annuities and/or remove regulations that are barriers to annuitization. Fortunately, bipartisan support led to the passage of both the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act),[103] and the Securing a Strong Retirement Act of 2022 (SECURE 2.0),[104,105] both which greatly improved the environment for creating a new security framework focusing on the importance of pro-

96. Svetlana Pashchenko and Ponpoje Porapakkarm, Accounting for Social Security Claiming Behavior, CRR Working Paper No. 2018-8, Center for Retirement Research at Boston College, 2018. Available at: http://crr.bc.edu/wp-content/uploads/2018/09/wp_2018-8.pdf
97. U.S. Social Security Administration, Annual Statistical Supplement To The Social Security Bulletin, 2023, Table 6.B5.1, November 2023. Available at: https://www.ssa.gov/policy/docs/statcomps/supplement/2023/6b.html#table6.b5.1
98. https://www.ssa.gov/policy/docs/statcomps/supplement/2023/6b.html#table6.b5.1
99. Patrick J. Purcell, "Employment at Older Ages and Social Security Benefit Claiming, 1980–2018," Social Security Administration Research and Statistics Note No. 2020-0, 2020. Available at: https://www.ssa.gov/policy/docs/rsnotes/rsn2020-01.html.
100. U.S. Social Security Administration, Annual Statistical Supplement To The Social Security Bulletin, 2023, Table 6.B5.1, November 2023. Available at: https://www.ssa.gov/policy/docs/statcomps/supplement/2023/6b.html#table6.b5.1
101. Fellowes, Fichtner, Plews and Whitman. "The Retirement Solution Hiding in Plain Sight: How Much Retirees Would Gain by Improving Social Security Decisions," United Income, June 2019. United Income was acquired by Capital One in July 2019. The paper is now available at: https://drive.google.com/file/d/1PCkajIAbXYOrY1ufIxpbBnvyZ2fEGgkq/view?usp=sharing
102. For a good discussion of the roles governments, employers and plan sponsor can take from a public policy perspective, see: "Building Better Retirement Systems in the Wake of the Global Pandemic." Olivia S. Mitchell. NBER Working Paper #27261. May 2020. https://www.nber.org/papers/w27261
103. https://www.akingump.com/en/news-insights/president-trump-signs-secure-act-into-law.html
104. https://www.captrust.com/resources/secure-2-0-act-passes/
105. https://www.groom.com/resources/summary-of-provisions-in-the-securing-a-strong-retirement-act-h-r-2954/

tected income in retirement. The Secure Act provided a provision that made it easier for a retirement plan sponsor to offer an annuity option in a defined-contribution plan. This helps employers to offer an annuity option, traditionally associated with defined-benefit pensions, within a defined-contribution retirement plan. Research demonstrates annuitization in defined-contribution plans improve retirement welfare.[106] Secure 2.0 increased the amount that individuals can move into a qualified longevity annuity contract (QLAC).[107]

The framing and discussion surrounding assets in a financial portfolio also needs to be a part of the new retirement security framework. Traditionally, financial assets are grouped into basic categories, such as equities, bonds, or cash. However, given the important role protected income will play in the financial security of millions of Americans, it's time to recognize how protected income products should be considered an assets class in retirement planning discussions.[108]

BRIDGE TO MAXIMUM SOCIAL SECURITY BENEFITS

Providing adequate protected income for America's retirees, however, will depend on more than simply broad access to protected income options through employer-sponsored retirement plans. While there are many income needs that are shared by most retirees, the design of any one individual's income plan and the protected income solutions it requires are highly personal and particular. This is true not only because we all have our own personal vision and understanding of what a full life in retirement means, but also because of the number of variables involved in a retirement income plan. Fortunately, there are multiple annuity options available that can be tailored to individual needs.[109]

One of those variables that merits consideration is how an annuity can be used as part of an individual's Social Security claiming strategy, including the steps to maximize the program's benefits. If a person retires before their Social Security full retirement age, one option would be to purchase an annuity as a "bridge" between retiring and claiming Social Security. By using an annuity to provide protected income for a fixed number of years, the person could afford to file for Social Security later, either at their FRA or at age 70 to maximize their monthly Social Security benefits.[110,111,112] Another option is the use of longevity annuities, which help insure against the risk of outliving one's assets by paying out a stream of income starting approximately 10 years after the annuity is purchased.

BETTER EDUCATION AND DISCLOSURE FRAMING

Research demonstrates that many people lack the financial education and understanding to make complex financial decisions, including about risks in retirement.[113] The information people receive, and the form it takes, can also influence how people make financial choices. Typically, disclosure statements from defined-contribution plans focus on accumulated balances. Employers and plan sponsors could design better benefit statements.[114] The Secure Act, which became law at the end of 2019, requires employers to provide plan participants with an estimate of the lifetime income that their accumulated retirement savings will provide.[115] These illustrations give people a better understanding of the implications of their saving choices and research shows

106. See, for example: "Welfare Improvements from Default Annuitization in Defined Contribution Plans." David Blanchett and Michael Finke. Retirement Income Institute. August 2022. https://www.protectedincome.org/wp-content/uploads/2022/08/RP-12_Blanchett-Finke_v3.pdf
107. For a summary of the retirement provisions in both Secure Acts, see: https://www.employeefiduciary.com/blog/the-secure-act-of-2019-an-analysis-of-key-401k-changes and https://www.employeefiduciary.com/blog/secure-act-2.0-summary
108. See, for example: "Protection as an Asset Class." Wade Pfau. Retirement Income Institute. June 2023. https://www.protectedincome.org/wp-content/uploads/2023/06/RP-20_Pfau_final.pdf
109. https://www.protectedincome.org/annuities/how-an-annuity-works-signature-series/
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112. "Would 401(k) Participants Use a Social Security "Bridge" Option?" Alicia Munnell & Gail Wettstein. December 2021. https://crr.bc.edu/wp-content/uploads/2021/12/wp_2021-27.pdf
113. See, for example: "Risk Literacy in the U.S.: New Evidence and Implications for Retirement Planning and Financial Fragility." Lusardi, et al. December 2023. https://www.protectedincome.org/research/risk-literacy-in-the-us-new-evidence-and-implications-for-retirement-planning-and-financial-fragility/
114. https://www.rand.org/content/dam/rand/pubs/working_papers/WR900/WR951/RAND_WR951.pdf
115. https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/pension-benefit-statements-lifetime-income-illustrations

are already having a positive impact on savings rates.[116] The Social Security statement also provides an estimate of the monthly benefit a person can expect to receive.[117] This type of framing is necessary to help people understand the role protected income can play in helping them achieve a financially secure retirement. However, policymakers, employers, and other stakeholders shouldn't be satisfied with a one-time change to disclosure practices. Participant behavior should be closely monitored and integrated with new research-based framing practices to improve disclosure and education efficacy over time.

MAXIMIZE PROTECTED INCOME IN AN UNCERTAIN INTEREST RATE ENVIRONMENT

Over the past several years, it was harder to earn a risk-free rate of return on existing assets, as the nation experienced a low-interest rate environment where the returns on fixed-income assets were at historical lows. Only recently have interest rates increased. However, the interest rate environment remains uncertain. Therefore, equity premiums will be more important and variable annuities may be more attractive than fixed annuities. Variable annuities could be a good option for those individuals who have limited retirement savings because they would get the benefits of capital accumulation on a tax deferred basis. Those potentially higher returns could allow them to accrue a higher annuity payout than going with a fixed annuity that offers a guaranteed interest rate and a fixed payment. Recent analysis has also shown that annuities become a relatively more efficient means of generating retirement income when compared to potential substitutes like bonds, due in large part to annuities' use of mortality credits[118] and risk pooling.[119] Employers, plan sponsors and government should work together to develop public policies that aim to improve access and availability to as many options as possible that would help people save for and have an adequate financially secure retirement.

UTILIZE "TRIAL ANNUITIES" TO ENCOURAGE BETTER PLAN PARTICIPANT BEHAVIOR

At the market level, firms could encourage employee saving in a variety of ways. In fact, a 2021 survey by the Bipartisan Policy Center finds that many workers want their employers to help them save.[120] Besides establishing sophisticated automatic saving plans that enroll workers, raise contributions gradually over time (perhaps associated with annual raises), and allocate contributed funds to diversified investments with low costs, they can develop more attractive annuity options. As the life expectancy Americans continues to increase, it becomes imperative that individuals properly allocate their resources so they do not exhaust them before the end of life. Annuities may help ensure that households have a constant stream of protected income.

One such option has been called a "trial annuity"[121]—a two-year annuity automatically purchased using part of a new retiree's savings. Trial annuities are designed to get workers "over the hump" of being willing to try taking their retirement income in the form of an annuity without having to commit themselves ex ante to a lifetime contract. Unless workers actively decide to opt out of the plan after two years, the trial annuity would either renew for another two years or become permanent. Under such an arrangement, consumers would be given more information about how to use their retirement income properly. Because defined-contribution plans are already so widespread, many more people would enter the annuity market, potentially lowering the costs of providing such a plan. This would help mitigate the potential adverse selection problem associated with annuities, where those that live longer are those that typically buy annuities, thus raising the cost to insurers of selling annuities. Increasing the pool of those buying annuities diversifies the risk pool and lowers the cost. This is similar to how health insurance policies work.[122] Companies can continue to increase automatic enrollment in retirement plans.

116. https://www.tiaa.org/public/pdf/the_tiaa_retirement_insights_survey.pdf
117. https://www.ssa.gov/myaccount/statement.html
118. "Understanding Mortality Credits," Michael Finke. Retirement Income Institute, Alliance for Lifetime Income. October 2023. https://www.protectedincome.org/wp-content/uploads/2023/10/IN-07-Finke_v2.pdf
119. https://www.forbes.com/sites/wadepfau/2020/04/08/is-buying-an-annuity-in-a-zero-interest-rate-environment-a-good-idea
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EMPLOYERS NEED TO DO MORE, INCLUDING MAKING PROFESSIONAL FINANCIAL ADVICE A WORKPLACE BENEFIT

Finally, since many workers are asking their employers to help them save and plan for retirement, employers need to do more. A 2022 research study by Alight concludes: "Most of the provisions of the SECURE Act [1.0] have been met by employers with a yawn," adding that "the interest in annuities has changed only marginally."[123] Employers need to take the lead and embrace the need for a new retirement security framework by offering protected income strategies in their retirement plans and offering professional advice as a workplace benefit to their workers.[124] This benefit need not be solely designed to help employees discuss retirement options. Employees are seeking professional financial advice on a wide variety of issues, including saving for emergencies, a home, education, and even help with basic financial literacy and developing a monthly budget. It is an important component of the new retirement security framework that employers take an active role in helping their workers save for events that occur during their working lives, as well as helping them to have a financially secure retirement.

Lastly, annuities can be very confusing to consumers.[125] While recent research has found that over half of consumers only somewhat understand the various products they discuss with financial professionals, the challenge is particularly acute when discussing annuities.[126] The same research found that 64% of consumers found annuities to be the most difficult financial product to understand because of how they are described. Fortunately, today there are numerous educational guides and materials publicly available and designed to address this difficulty—from simple language glossaries to recommended questions to ask a financial professional when considering an annuity.[127,128,129,130,131,132] Additionally, financial professionals will need to help clients understand their retirement income options.[133]

CONCLUSION

2024 marks the beginning of the "Peak 65® Zone," the largest surge of retirement age Americans turning 65 in our nation's history, and fewer employers offer a traditional defined-pension retirement plan that provides much needed protected income guaranteed throughout retirement. The old retirement system no longer fits the needs of today's American workforce. The result is that more Americans are currently at risk of entering retirement with Social Security as their only means of protected income, leaving many exposed to financial insecurity. Additionally, younger generations are arguably more "at risk" given the financial problems facing both Social Security, Medicare and the nation's increasing national debt (both in nominal terms and as a share of GDP). As we approach the greatest surge in the number of people aged 65 and over, now is the time to adopt a new retirement security framework.

The old metaphor of the three-legged stool of retirement planning no longer holds (employer pension, personal savings, and Social Security). Many Americans lack sufficient, reliable, and protected retirement income that will last for the rest of their lives. It's time for a new retirement security framework that focuses on the need for sufficient protected income in retirement.

AUTHOR

Jason J. Fichtner, Ph.D. is Executive Director of the Retirement Income Institute and Chief Economist at the Bipartisan Policy Center.

123. "2022 Hot Topics in Retirement and Financial Wellbeing." Alight. 2022 Version. Available at: https://www.alight.com/getmedia/dc44af07-58e6-4919-8679-bb81f09f8682/2022_Hot_Topics_in_Retirement_and_Financial_Wellbeing_07064.pdf
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WHY DON'T MORE PEOPLE BUY ANNUITIES NOW[134]

Planning for a financially secure retirement necessitates estimating numerous factors, including interest rates, inflation, expected spending on housing, travel, health care, etc. It also requires estimating how long you expect to live and, therefore, how long you'll need your retirement assets to last. Annuity products can provide protected income in retirement or guaranteed income that lasts as long as you live. These annuity products provide income protection and retirement security. Why consumers choose, or choose not, to annuitize (i.e., elect to create this stream of protected income) has been subject to considerable research.

The role that consumer behavior and the estimation of longevity plays into insurance has been discussed for decades (Yaari, 1965). Given that annuities provide such powerful income protection, economists have long questioned why so few people either choose to purchase an annuity or under-annuitize their wealth at retirement, even though the economic rationale for annuitization is strong (Brown J. R., 2007). Popularly called the "annuity puzzle," the literature suggests numerous reasons why demand for annuities has historically been lower than predicted, even though from the viewpoint of a rational economic actor, annuities should be much more popular.

For example, how the information to purchase an annuity is discussed, or framed, can have a major effect on the decision to annuitize. If consumers evaluate an annuity product using what is termed an "investment frame" that focuses on potential investment return and risk, then annuities may appear to be an inferior investment. However, if instead an annuity product is evaluated using a "consumption frame" where the product protects a person's ability to have a guaranteed level of income to support consumption, then annuity products are quite attractive. Research by Brown, et al (Jeffrey R. Brown, Jeffrey R. Kling, Sendhil Mullainathan, Marian V. Wrobel, 2008), supports the hypothesis that a consumption frame is superior to an investment frame and contributes to more desirable economic outcomes for retirees. In one experiment, the researchers found that 72 percent preferred a life annuity over a savings account when the choice is framed in terms of consumption, while only 21 percent prefer it when the choice if framed in terms of an investment (Jeffrey R. Brown, Jeffrey R. Kling, Sendhil Mullainathan, Marian V. Wrobel, 2008).

Additional research suggests that consumers have difficulty valuing annuities and therefore reveal a preference for lumpsums, which also helps to explain the lower-than-expected demand for annuity products (Brown J. R., 2013). Similar research conducted a few years later expanded upon the difficulty consumers have valuing annuity products (Brown J. R., 2019). In the 2019 research, the authors drew on a survey of approximately 4,000 U.S. adults and designed an experiment to vary the degree of complexity in presenting information. The authors find causal evidence that increasing the complexity of the annuity choice reduces the ability of people to value an annuity. Further, the authors find that the ability to value an annuity increases when the experiment was designed in a manner to induce people to think jointly about the annuitization decision as well as how quickly or slowly to spend down assets in retirement. Receiving a lumpsum from a defined-contribution plan potentially exposes the recipient to risk, as the retiree now must manage that money throughout the rest of their retirement and exposing themselves to market risk, inflation risk, longevity risk, etc.

The amount of assets at retirement also plays a role in the decision whether or not to purchase an annuity (Banerjee, 2017). Research suggests that those at the top and the bottom of the savings distributions tend to purchase annuities because they expect to live longer and have enough wealth to leave as a bequest even after purchasing an annuity. Higher levels of savings have a large positive effect on the decision to purchase an annuity. However, those at the bottom of the savings distribution are more likely to run out of money, not counting Social Security, and are more inclined to purchase an annuity.

134. The Retirement Income Institute has published numerous "Insights" on the "annuity puzzle." For some examples, see: https://www.protectedincome.org/retirement-income-institute/research-and-insights-retirement-income-institute/?_rii_type_checkboxes=jason-fichtner

It is also possible that people have a bequest motive that makes annuitization less appealing. In other words, those that would like to leave their assets upon death as a bequest to a family member or charity, may be less inclined to pay a lumpsum upfront for a stream of income payments when that lumpsum could instead be used as a bequest upon death. Research by Lockwood explored the role bequest motives play in the low use of annuities, finding that the evidence suggests bequest motives play a central role in limiting the demand for annuities (Lockwood, 2012).

Further exploring the annuity puzzle, there is now additional literature exploring the behavioral economics of retirement saving and trying to understand why annuities remain less popular with the public than predicted, even though annuities can solve many of the complex problems and risks people face in retirement, such as when to retire and how much to spend in retirement (Benartzi, 2011). Economists now stress that both behavioral and institutional factors play an important role in whether or not people choose to purchase an annuity.

The decline of traditional defined-benefit plans that paid out a stream of income payments during retirement should only increase the interest in annuities, as people seek to mirror the lifetime benefit payment feature of a pension with the assets accumulated in a defined-contribution plan. Research by Brown, Poterba and Richardson focus on the annuity decisions made by defined-contribution participants in plans administered by TIAA (Brown J. R., September 2019). The authors' research reveals some interesting findings. For example, the "fraction of first-time retirement income claimants who selected a life-contingent annuitized payout stream dropped from 54% in 2000 to 19% in 2017. Over the same period, there was a sharp increase – from 9% to 58% - in the fraction of retirees making no withdrawals until the age at which they needed to begin required minimum distributions (RMDs)." The authors also found that the closer a person was to age 70, the less likely they were to purchase an annuity. Further, their research suggests that both the falling nominal interest rates since the year 2000 and the rising age at which people start to claim income from their retirement plans have further led to a decline in annuitization.

Ultimately, a new retirement security framework must account for the dramatic reduction in protected income for America's retirees—as a result in the decline of traditional pensions—while taking steps to address the behavioral barriers to annuitization created by the defined-contribution framework. Only then will the US have a retirement system that provides adequate financial security for its older population.[135]

135. The Alliance for Lifetime Income's Retirement Income Institute has published numerous research products touching on many of the key insights and research articles discussed in this paper. These papers are available to the public at no charge and can be downloaded by visiting the Institute's website: (https://www.allianceforlifetimeincome.org/retirement-income-institute).