

GAO paints a broad view of America's retirement challenge

By Editor Test *Wed, Jul 6, 2011*

A new report from the General Accounting Office shows, among other things, that delaying Social Security can be cheaper than taking it early and making up the difference with an income annuity.

The General Accounting Office reported last week that it would be more cost-effective for people to delay Social Security and get a larger benefit than to take Social Security early and buy an income annuity to make up the difference.

In its report, "[Retirement Income: Ensuring Income Throughout Retirement Requires Difficult Choices](#)," the GAO took a broad look at retirement issues facing Americans and reviewed the various possible policy responses to those problems.

In what was otherwise a recitation of facts already well known to those in the retirement industry, the GAO authors also produced a chart comparing two ways for a male Social Security beneficiary to generate a \$16,000 lifetime income starting at age 66.

The beneficiary could start taking \$12,000 at age 62 and then pay \$71,000 at age 66 for an annuity that would pay out \$4,000 a year and bring his income up to \$16,000. Or he could wait until age 66 to claim Social Security and receive \$16,000 a year for life (replacing the foregone Social Security income with \$48,000 in private savings in the meantime).

The net savings for claiming later would be \$23,000. Unfortunately, most Americans discount the value of their future income and choose to take Social Security benefits as soon as they can. According to the GAO report, 43.1% of eligible participants took their benefits right away between 1997 and 2005. About 14.1% waited until full retirement age and just 2.8% took benefits after their 66th birthdays.

Women are more likely than men to face poverty in old age, the report showed. About 13.5% of women aged 75 and older lived in poverty during the years 2005 to 2009, while only 7.7% of elderly men were living in poverty. In 2009, an estimated 3.4 million Americans over age 65 lived in poverty.

Among the proposed public policy changes reviewed in the report:

- Revise the safe harbor provisions for plan sponsors when selecting an annuity provider
- Require plan sponsors to offer an annuity
- Encourage plan sponsors to offer a default annuity
- Modify tax laws on required minimum distributions to remove obstacles to deferred income annuities
- Modify spousal protection provisions in defined contribution plans
- Improve financial literacy regarding retirement income sufficiency

The GAO report was produced at the request of the Senate Select Committee on Aging.

