Retirement Income
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Government-Sponsored Annuity Proposed

By Editor Test *Wed, Mar 2, 2011*

Investing in Treasury bonds to fund a retirement annuity would make individual Americans and the nation more financially secure, claim academics Terrance Odean (above) and Henry T.C. Hu.

In a op-ed article in the *New York Times*, a University of Texas law professor and a finance professor from the University of California at Berkeley have called for a new retirement product: a federally-insured, inflation-adjusted annuity that would supplement Social Security and other retirement savings.

Writing in the Feb. 25 edition of the *Times*, Henry T.C. Hu and Terrance Odean described the program this way:

"People who wanted to buy this insurance would enroll through one of the qualified retirement savings plans already offered to the public, like a 401(k) plan, and could choose [inflation-adjusted Treasury bonds] instead of or in addition to investments in stocks, bonds or mutual funds.

"Payouts… could be based on a variety of factors, including interest rates on government bonds, mortality tables that… take into account that healthier people are more likely to buy annuities, and administrative costs."

Under such a program, they suggested, U.S. savers could replace foreign savers in financing the U.S. government, thus reducing the tens of billions of dollars in interest payments that are sent overseas each year. Foreign lenders own close to half of all outstanding federal debt today—nearly 10 times the proportion in 1970, they wrote.

Instead of crowding out private annuities, they wrote, government annuities would "spur growth in private annuities. Since the inflation-adjusted monthly payments of such risk-free government annuities would be low, many retirees may choose to supplement them with riskier, higher-paying annuities."

Professor Hu was director of the SEC's Division of Risk, Strategy, and Financial Innovation from September 2009 to November 2010 before returning to his position at the University of Texas. Professor Odean specializes in behavioral finance.

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