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## Obama Is All Ears About Annuities

By Editor Test     *Wed, Jan 20, 2010*

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The U.S. Treasury and Labor Departments are nearing a request for public comment on ways to promote the conversion of 401(k) and IRA savings into annuities or other steady payment streams.

There is “a tremendous amount of interest in the White House” in retirement security initiatives, Assistant Labor Secretary Phyllis C. Borzi told *Bloomberg News*. Borzi heads the Department of Labor’s [Employee Benefits Security Administration](#).

In addition to annuities, the inquiry is likely to cover other approaches to guaranteeing income, including longevity insurance that would provide an income stream for retirees living beyond a certain advanced age.

AARP is interested in the issue. “There’s a real desire on a lot of people’s parts to try to encourage something other than just rolling over a lump sum, to make sure this money will actually last a lifetime,” said David Certner, legislative counsel for the huge Washington-based advocacy group for retirees.

So is the Treasury Department. “There’s been a fair amount of discussion in the literature taking the view that perhaps there ought to be more lifetime income,” agreed Mark Iwry, a Treasury official who works on retirement income. “The question is how to encourage it, and whether the government can and should be helpful in that regard.”

### **Fools rush in?**

But there’s no clear indication from Washington yet regarding the kind of annuity the administration favors, or whether it understands the differences between immediate and deferred, fixed and variable, single and joint, or life and period certain annuities—in short, all the nuances that make annuity decisions so complex and problematic.

Americans undoubtedly need help with retirement income. The average 401(k) fund balance was \$60,700 as of last September 30. That was better than the \$47,500 in March 2009, but still shy of its average of \$69,200 at the end of 2007, according to a Fidelity Investments review of 11 million accounts it manages.

Those humble balances argue *against* income annuities as much they argue for annuities, because small balances buy very little monthly income. If the government mandated partial annuitization, the resulting income streams would be even smaller.

Adding lifetime income to 401(k) plans is “a great idea, but how much are people really going to get out of it?” said Karen Ferguson, director of the Pension Rights Center in Washington, D.C., who would like to see a revival of defined benefit plans.

The public isn't exactly clamoring for annuities. All but about two percent of 401(k) plan participants take their savings as a lump sum on retirement, according to the Washington-based Retirement Security Project. When they can, even workers with defined-benefit pensions tend to take their benefits as lump sums rather than as annuities.

"Households' views on policy changes revealed a preference to preserve retirement account features and flexibility," said a report by the Investment Company Institute, which represents the mutual fund companies whose products 401(k) participants invest in. Seven in 10 U.S. households would object to a requirement that retirees convert part of their savings into annuities, the report said.

### **Recipe for politicization**

A government push for annuities—either life annuities or deferred variable annuities with lifetime income riders—could put it squarely between the insurance companies and mutual fund companies that are in a zero-sum competition for the trillions that Americans hold in retirement accounts.

Mutual fund companies, represented by the Investment Company Institute, clearly don't want to see 401(k) assets move out of their products and into the general funds of insurance companies, as they would if more Americans bought income annuities at retirement, as many Britons do.

John Brennan, the former chairman of Vanguard, the giant mutual fund company, criticized private annuities as expensive and offering little inflation protection. Americans already have "the best annuity in the world, which is Social Security," he said on Bloomberg Television.

AARP's Certner said policy makers could reduce annuity costs by encouraging the use of group annuities, which are bought by employers rather than individuals and often carry lower fees, or using approaches that provide retirement income without commercial annuities.

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