WITH Steven A. Morelli

Obamannuities? The Government Endorses the Value of Annuities Amid the Retirement Crisis

Annuities proved their value by providing your clients security while the financial world crumbled around them. We even heard about people bragging that they kept their retirement money coming while others saw their incomes plummet during the dive in CD and bond rates as well as stock values.

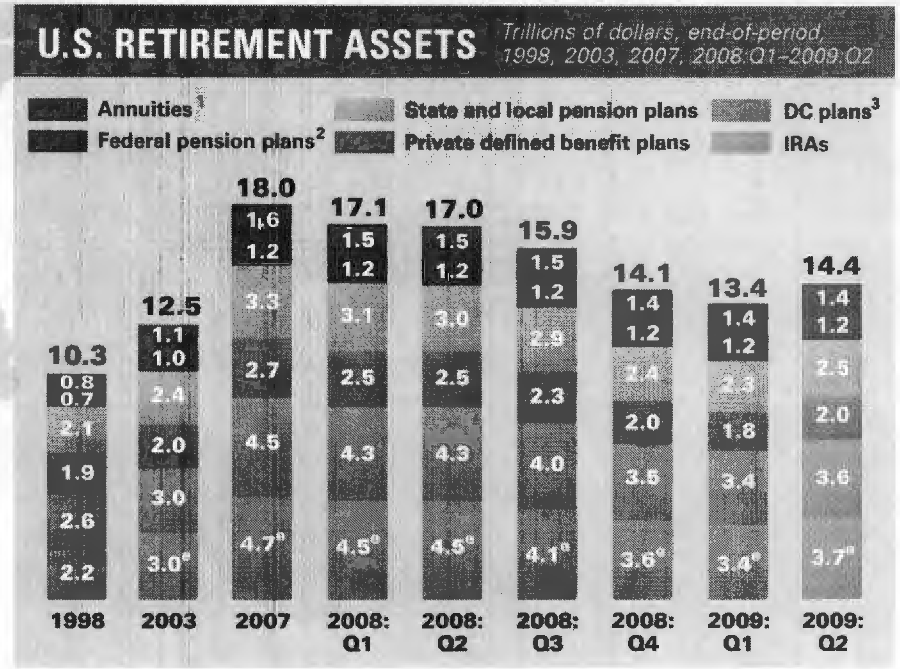
Now the Obama administration is acknowledging the power of annuities and plans to use them to help solve the retirement crisis facing Americans today. Not only could this plan help boost the industry's sales it could also finally give the products the respect they deserve.

The Department of Labor included in its most recent agenda an initiative by its Employee Benefits Security Administration (EBSA) to promote annuities for all workers as part of 401(k)s and other retirement benefit plans.

"EBSA also will explore steps it can take by regulation, or otherwise, to encourage the offering of lifetime annuities or similar lifetime benefits distribution options for participants and beneficiaries of defined contribution (DC) plans," the agenda document read.

The Labor Department is expected to ask for public comment on initiatives to convert 401(k)s and IRAs into annuities, according to a BusinessWeek report, which also said this represents a keen interest within the White House in retirement security.

The Obama administration is not alone in this. In fact, Congress has been discussing similar ideas and has a Government Accountability Office report that seems to support annuitizing retirement income.



Source: The Investment Company Institute

[1]Annuities include all fixed and variable annuity reserves at life insurance companies less annuities held by IRAs, 403(b) plans, 457 plans, and private pension funds (including 401(k) plans).

[2]Federal pension plans include U.S. Treasury security holdings of the civil service retirement and disability fund, the military retirement fund, the judicial retirement funds, the Railroad Retirement Board, and the foreign service retirement and disability fund. These plans also include securities held in the National Railroad Retirement Investment Trust and Federal Employees Retirement System (FERS) Thrift Savings Plan (TSP).

[3]DC plans include 403(b) plans, 457 plans, and private employer-sponsored DC plans (including 401(k) plans).

[4]Data are estimated.

Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

The GAO report, "Private Pensions: Alternative Approaches Could Address Retirement Risks Faced by Workers but Pose Trade-offs," was released in July 2009 in response to increased retirement insecurity. The report noted that as of 2008 half the nation's workforce did not have a defined benefit or DC pension plan. And that was the start of the problems. More companies these days cannot sustain traditional pension plans, and even when workers do have them, they cannot carry them over to other employers. With DC plans, employees were not saving enough even before the recession. The sometimes dramatic swings of the stock market put at risk the little money individuals have saved in their 401(k)s and IRAs.

Those stock market slumps can be particularly disastrous if they occur just as people retire, as we all saw in this recession. Retirees got slammed with a triple whammy of depressed real estate values and layoffs, along with the plunge in stock and bond returns.

That can lead to what the report called an inappropriate drawdown of benefits. The GAO pointed out that other nations have turned to annuitizing benefits to solve this problem.

"The United Kingdom's pension plan law requires retirees to annuitize at least 75 percent of their accrued benefits from pension plans, including Personal Accounts plans, by the age of 75," the report said. "Annuitizing benefits guarantees that retirees will have income for the rest of their lives."

In December, a bill was introduced in the Senate by Sen. Jeff Bingaman, D-N.M., called the Lifetime Income Disclosure Act (SB 2832). It would require 401(k) plan sponsors to inform participating workers of the projected monthly income they could expect at retirement based on their current account balances, much in the same way the Social Security Administration sends out annual statements estimating monthly payments. It would be a small step that would get people more acquainted with annuities.

Of course, all this growing attention to annuities has many in the financial investment world crying foul. The Investment Company Institute, which represents mutual fund companies, put out survey results that ICI said showed a majority of people do not want to be required to convert retirement assets to annuities. This is regarded as a warning shot that mutual fund companies and others will fight efforts to institute annuities.

The Obama administration wants annuities to be a bigger part of the retirement picture, with the Department of Labor making the initiative one of its priorities to promote the products in 401(k)s and other retirement benefit plans.

The chart on the previous page produced by ICI shows the hit retirement funds took overall during the recession — a loss of $3.6 trillion between 2007 and the second quarter of 2009. During that period, despite a slight rebound, private pension plans lost $700 billion while public employee pensions lost $800 billion. DC plans did not fare much better, losing $900 billion. IRAs lost $1 trillion.

Guess what held relatively steady during that time. Of course, it was annuities.

As difficult an experience as the recession has been, it does serve as a laboratory for financial product performance. Few can argue that annuities have held steady and helped clients sleep at night. Now the federal government wants to take that lesson to all Americans.

Besides some in the financial world, others are criticizing the Obama administration's move as an asset grab by the federal government. Now we are as wary as those critics are about confiscatory policies, but this is a win for consumers. Waves of Americans are heading into what used to be their retirement years. Many of them are unsure whether they can ever stop working, as they lose the promise of pensions and watch the lifeblood of their savings seep away. Annuities are kept promises. Rather than losing control of their funds, as critics claim, consumers regain security in their lives with the power of their own money.

Why should the nation sink into this retirement morass when we have an answer, a proven solution? You already know the protection and power of annuities. Now it is time for everybody to know. INN

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