



Brookings Study Says Retirees Need Annuities to Increase Income

By Jeff Plungis

June 5 (Bloomberg) -- Baby boomers stretching retirement funds to cover longer lifespans may benefit from annuities funded by their 401(k) plans, a Brookings Institution study said.

Converting a portion of savings into fixed-payment annuities would help workers retiring in the next 20 years, researchers at the institution's Hamilton Project said in the study published today. Enabling retirees to receive the payments during a two-year trial period would help educate them, they said, while simplifying their lives by outsourcing the burden of worrying about investment decisions.

Annuities give people a steady stream of monthly income for however long they live, ensuring they won't outlive their savings, study author Lina Walker, research director of the Retirement Security Project, said today at a talk in Washington. William Gale and Mark Iwry of Brookings and David John of the Heritage Foundation co-wrote the study.

"If they consume their resources too quickly, they may outlive their saved assets," the researchers said in the study. The projected average 401(k) balance will be \$348,000 in 2040, 13 times higher than today's average balance, the study said. To generate sufficient income, employers would convert between 33 percent and 75 percent of the balance to an annuity, subject to government guidelines.

The decline of traditional company pension plans, which also offer fixed payments for life, means the need for something like an annuity is likely to grow, the researchers said. There isn't a great deal of interest from the public, in part because the plans are difficult to understand and it's difficult to compare options.

Biased

Today's market is biased against annuities in part because employers stopped offering the option as part of the standard menu of 401(k) investment options, said Harvey Blitz, senior vice president of AXA Equitable Life Insurance Co. People aren't exposed to the products, so it's difficult to judge whether they would benefit. The proposal says the annuity plan should be an automatic part of the 401(k), though participants could opt out.

"If we're going to create a system like this, the level of trust has to be very high," Blitz said.

Annuity plans can also have high fees, which cut into the income received. Administration costs would be reduced if the system of trial 401(k) payments were in effect, said paper co-author Mark Iwry. The authors proposed the trial program be administered by companies currently offering 401(k) plans. After the trial period, the retiree would decide whether to make the annuity permanent or convert the funds back.

Brookings's Hamilton Project is focused on finding "new, sometimes controversial policy options" that combine government action with market forces. Alexander Hamilton, the first U.S. Treasury Secretary, thought sound fiscal policies and broad-based opportunity would drive American growth, the group says.

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