

## Financial advisers, insurers hail GAO plug for immediate annuities

By Darla Mercado

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Although encouraged by the results of a recent Government Accountability Office study that effectively endorses immediate annuities as a supplement to Social Security, financial advisers and insurers don't think that the GAO's imprimatur will lead to an immediate sales boom.

The government study, which was released on the eve of the Independence Day holiday weekend, found that immediate annuities would be most helpful for middle-income households — those having a net worth of about \$350,000, including their homes — which should wait until full retirement age before taking Social Security.

“This is a way of recognizing the shortcomings of Social Security,” said Joseph B. DeDomenico, a financial adviser with DeDomenico Wealth Management LLC. “It's time to take care of yourself.”

Robert Beswick, an adviser at Preisz Associates Inc., agrees.

“It's kind of a signpost that the GAO is giving us, to consider this as an alternative,” he said.

“This report points out for the retail side that this is about an income stream, and not about amassing a number,” said Katie Libbe, vice president of consumer insights at Allianz Life Insurance Co. of North America.

She noted that the insurer will be referring advisers to the study.

“We're pleased with efforts that heighten income annuities' profile,” said Thomas Johnson, a senior vice president at New York Life Insurance Co.

Sales of immediate annuities totaled \$7.5 billion in 2009 and inched up to \$7.6 billion last year, according to data from LIMRA International Inc. Over the course of the next five years, the research organization expects sales to hit \$13 billion.

Analysts think that the current ultralow-interest-rate environment has depressed sales of the product and will keep sales from taking off.

“People who can wait for higher rates are probably waiting right now, and those who are buying now are driven by the need to put guaranteed income into place,” said Judith Alexander, director of sales and marketing at Beacon Research Publications Inc.

Interest rates are a factor in the size of the payments that buyers receive from immediate annuities, but even today's persistently low rates haven't deterred purchases of the products.

In fact, some of the recent sales growth could be attributed to boomers who lost their jobs and were essentially forced to retire early, making immediate income a priority, Ms. Alexander said.

In addition, sales may be rising because more distribution channels are marketing the product, said Jafor Iqbal, associate managing director of retirement research at LIMRA. Whereas the product was sold almost exclusively by insurance agents in the past, banks, wirehouses and other broker-dealers are increasingly selling immediate annuities, he said.

Advisers noted that the GAO's nod to immediate annuities, particularly those with inflation-adjusted payouts, could help raise awareness among clients.

"Clients want to make money, but more importantly, they don't want to lose it," said Mr. DeDomenico, who has recommended single-premium immediate annuities and has been taking a closer look at longevity insurance — a fixed deferred annuity that provides income further into the future.

Products that he likes include Nationwide's Income Promise SPIA, which includes cost-of-living adjustments and allows lump-sum withdrawals in the case of an emergency.

On the retirement plan front, some of the experts interviewed by the GAO suggested that defined-contribution plans be required to make annuities available to plan participants as an investment choice. Among the experts' other suggestions were encouraging plan sponsors to offer an annuity as a default investment and granting safe harbor to plan sponsors for offering annuities as a payout option.

Those suggestions may or may not influence the Labor Department in arriving at a firm decision about whether plan sponsors should provide lifetime-income options in retirement plans.

The agency has its plate full of retirement plan initiatives, including work on a proposal that would project participants' retirement income when they received monthly or quarterly statements, said Bradford P. Campbell, an attorney with Schiff Hardin LLP.

"I think the report will advance the ball on various fronts, and I think policymakers will pay attention because it's the GAO," said Joe McKeever, a partner at Davis and Harman LLP.

Nevertheless, "movement is a relative term in Washington, and there are a lot of competing policies that the DOL is trying to balance," he said.

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