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Is Washington endorsing annuities?

In recent weeks, I have been inundated by annuity industry promotional pieces that reference the Government Accounting Office and their supposed endorsement of annuities.

If you haven't heard this pitch, you will, so it's important to know exactly what those GAO studies say, why they said it, and what specific types of annuity strategies they're talking about.

Last week, I was at an event where I heard a phenomenal presentation by Dr. Larry Arnn, president of Hillsdale College . One of the more interesting things he said was that our country has had to deal with three huge events in its history; the Civil War, World War II, and our current struggle with the national debt.

The ongoing debt issue is one that we are obviously still in the process of solving, and might be the reason that the GAO is "suggesting" that people need to consider annuities for their additional lifetime income needs in order to lessen the government's perceived responsibility to fill that gap.

We all know that Social Security was never implemented to provide all of a person's retirement income, and the GAO is now suggesting that you consider creating a lifetime income stream with either some or all of your retirement lump sum.

This is a rational thought, but one that also indicates the needed adjustments (i.e. cuts) to Social Security benefits as we know them today. A logical guess as to why the GAO is suggesting that the public now consider annuities is because the need people to start taking more responsibility for their own lifetime income needs, and not just rely on Social Security and the government. Imagine that!

One of the GAO reports concerning both annuities and Social Security is titled, "Ensuring Income throughout Retirement Requires Difficult Choices." Here are a couple of key points and GAO suggestions within this report.

- Convert your pension/retirement plan to a lifetime income annuity in lieu of taking a lump sum.
- At least half of a person's retirement savings should be placed into a lifetime income annuity.

Here's what this GAO report didn't say that you need to understand. The GAO did not recommend deferred products like variable annuities or equity indexed annuities for income now needs. They were only talking about single premium immediate annuities (which they call a lifetime income annuity) within this specific report for that solution. Single Premium Immediate Annuities (SPIA's) are the most efficient, lowest commission, pro-customer annuity strategy for lifetime income when payments are needed to start immediately.

SPIA's are pretty much commodity products where insurance carriers bid to provide your lifetime income stream. There are about 50 real carriers that are competitive in this arena, and you should have your agent use quoting systems like CANNEX so that you can see a full listing of the best national quotes for your specific age and life expectancy.

The GAO also released a report this past December called, "Annuities with Guaranteed Lifetime Withdrawals Have Both

Benefits and Risks, but Regulation Varies Across States." Title brevity is not the GAO's strong suit to say the least!

This study was geared more toward deferred annuities that have attached income riders. Income riders are contractually guaranteed benefits that you attach to a deferred annuity (and pay an annual fee for), and those benefits can only be used for lifetime income and can't be accessed in a lump sum. Income riders should be used for your lifetime income to start at a later date, or what I call target date income planning. What the report did not address are the new Longevity Annuity strategies that are now competing with income riders.

Below are a few main points from this report:

- Annuities with guaranteed lifetime withdrawals can help ensure that you do not outlive your assets.
- Consumers can benefit by having a steady income stream of income while maintaining access to their assets for unexpected or other expenses.

Income riders are the hottest thing going in the annuity industry right now (for both good and bad reasons), and work perfectly for target date income planning when the customer understands exactly how they work and fit within a portfolio. Just like quoting single premium immediate annuities, you should also receive multiple income rider quotes as well because lifetime payouts vary with each carrier and product, and there is a lot of confusion created by how income riders are presented and sold.

As I have said before, annuities should be used as transfer of risk solutions and owned for their contractual guarantees only.

Annuities aren't new to the investment world, and were originally designed over 2,000 years ago during the Roman era to provide lifetime income payments. Enough of the history lesson, but you need to know that annuities have been around for a very long time as a solution for lifetime income.

With these two studies, it looks like Washington in now trying to transfer the risk of lifetime income as well in order to lessen the dependency on government payments.

Whether you need income right now, or income to start at a later date, annuities can provide the additional lifetime income that you need to maintain your retirement lifestyle. Thanks to Washington (and the GAO) for the annuity plug. Anything to help people better understand the proper role and use of annuities is appreciated.

That role and use is lifetime income.