

# Retirees Should Delay Social Security, Add Annuities, GAO Says

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(Bloomberg News) Retirees may have to delay Social Security benefits and buy an annuity to have enough money for retirement, said a U.S. government study.

"The risk that retirees will outlive their assets is a growing challenge," according to a study from the Government Accountability Office scheduled for release today. Increased life expectancies and health-care costs coupled with declines in financial markets and home equity over the last few years have "intensified" workers' concerns about how to manage their savings in retirement, the report said.

Annuities are insurance contracts that can offer a steady stream of income for life. High-income households generally don't need them, according to experts the GAO consulted. Middle-income households, defined in the study as having a net worth of about \$350,000 including their homes, that don't have traditional pensions should consider using a portion of their savings to purchase an inflation-adjusted annuity, the study said. Lower-income families need to accumulate some cash savings first.

The study recommended that retirees make withdrawals from their investment portfolios at a rate of 3 percent to 6 percent annually. Many also should wait to take Social Security until at least the full retirement age, or 66 for those born from 1943 to 1954.

The Social Security program lets recipients take reduced payments as early as age 62. It provides full benefits at age 66 and increases payouts for those who wait up to age 70. Almost three-quarters of individuals took payouts before age 65, the GAO said. Monthly benefits received at age 70 are increased by at least 32 percent compared with taking them at 66, according to the study.

## **Tremendous Benefits**

"The benefits are tremendous especially if you're married and the higher wage earner waits until 70," said Christine Fahlund, senior financial planner at T. Rowe Price Group Inc. The amount retirees receive each year almost doubles from age 62 to age 70 in terms of purchasing power, Fahlund said. As long as retirees live to age 77, delaying payments until age 70 is usually worth it, said Fahlund.

Social Security's trustees said in May that it wouldn't be able to pay recipients in full beginning in 2036. The bipartisan U.S. deficit commission has recommended increasing the retirement age to cut costs.

## **Can't Cover Expenses**

The GAO study was requested by Senator Herb Kohl, a Wisconsin Democrat and chairman of the Senate Special Committee on Aging. The shift by employers from traditional pension plans, which generally guarantee income for life, to 401(k) savings accounts has put more responsibility on Americans for managing their "hard-earned savings" during retirement, Kohl said.

Almost half of those near retirement are predicted to run out of money and won't be able to cover their basic expenses and uninsured health-care costs, July 2010 data from the Washington-based Employee Benefit Research Institute show. A husband and wife who are both 65 years old have about a 47 percent chance that at least one of them will live until 90, the GAO report said.

An immediate annuity can protect retirees from the risk of outliving their savings, according to the study. For example, a contract purchased for \$95,500 by a 66-year-old couple in Florida may provide \$4,262 a year until the death of the surviving spouse and include increases for inflation, the report said. Six percent of workers with a 401(k)-type plan opted for an annuity at retirement, said the study.

## **Resistance To Annuities**

Americans have resisted buying annuities for reasons including concern about fees and the desire for control of assets, said David Laibson, an economics professor at Harvard University. Employers have held off on adding them to 401(k) savings plans because they're worried about litigation and lack clarity on how to proceed, Laibson said.

"The problem right now is interest rates are so low you're not getting a great return for that chunk of cash you're handing the insurance company," said Liz Weston, author of "The 10 Commandments of Money." That's why retirees may want to purchase a contract with some of their money now and buy another in the future when rates may be higher, said Weston, who's based in Los Angeles.

The Labor and Treasury departments are considering ways to encourage lifetime-income options in 401(k)-type plans, including showing the potential income streams from account balances in participants' statements.

"We anticipate issuing our first set of relevant guidance or rules in this area later this year," Assistant Secretary of Labor Phyllis Borzi said in an e-mail.

## **Head of the Pack**

Asset managers and insurers understand that annuitization may need to be part of the retirement savings system as people live longer and have fewer defined benefit pension plans, said Harvard's Laibson. "Everyone's racing to be at the head of that pack when the ice breaks," he said.

State Street Global Advisors, a unit of State Street Corp., is planning to announce a 401(k) investment this fall that will include a built-in annuity, said Kristi Mitchem, head of the company's global defined contribution business, which had \$166 billion in plan assets at the end of last year.

BlackRock Inc., the world's biggest money manager, has a target-date fund with a fixed deferred annuity from MetLife Inc. for 401(k)s that's available to employers, said Brian Beades, a spokesman for the firm. No companies had adopted it as of June 27, he said.

Individuals should consult with a fee-only planner before committing to any retirement strategy, said Weston, the author. That's because many things can go wrong when spending down savings, such as withdrawing funds too fast or tapping pots of money in an incorrect order, she said.

"It's really not a do-it-yourself project," Weston said.