



FAQs ABOUT SECURITY PLUS ANNUITIES

WHAT IS A SECURITY PLUS ANNUITY?

- A Security Plus Annuity is an immediate life annuity that new Social Security retirees can buy (up to \$100,000 in purchase amount) through the Social Security Administration.
- A Security Plus Annuity gives buyers an additional stream of Social Security-like income added to monthly benefit checks and adjusted for inflation each year.
- Security Plus Annuities are priced on a group basis and underwritten by private insurance companies selected by the federal government through a competitive bidding process. Potential buyers can call a private call center for up-to-date purchase information.

WHY SHOULD THE FEDERAL GOVERNMENT STEP IN TO OFFER ANNUITIES?

- As people live longer and more of their retirement assets are in savings accounts, an annuity can be an important financial tool to keep them from outliving their assets or losing them in a market downturn.
- Few people today understand or buy an annuity.
- Security Plus Annuities are intended to educate retirees about annuities and make buying one easier and cheaper.

WHY ARE THERE A 12 MONTH TIME WINDOW AND A PURCHASE LIMIT OF \$100,000?

- A Security Plus Annuity is a “starter” annuity to help retirees plan their retirement income at a highly-relevant time, their first year of receiving Social Security.
- Retirees who wish to buy larger annuities or additional annuities later in life can always obtain them from the private sector.

WHY NOT JUST REQUIRE THAT ANNUITIES BE OFFERED OR MADE MANDATORY IN 401(k) PLANS?

- Most 401(k)-type plans today don’t offer annuities because sponsors don’t want the extra fiduciary liability attached to them. Requiring annuities will discourage them from offering plans.
- An annuity is not for everyone. Buying one is a highly-personal decision that depends on such factors as health, other assets, and family circumstances. Also, requiring younger people to lock their savings into an annuity that puts it off-limits for other life goals will discourage them from saving.

WHY NOT JUST GIVE ANNUITIES MORE TAX INCENTIVES?

- Tax incentives give subsidies to higher-income consumers who don’t need them while providing few benefits to lower-income consumers.

HOW MUCH MORE RETIREMENT INCOME COULD A SECURITY PLUS ANNUITY PROVIDE?

- That depends on how much a retiree decides to invest as well as current interest rates and other factors.
- Using rates from the federal Thrift Savings Plan as of September 9, 2009, a retiree at age 67 could purchase an additional \$268 in initial monthly for \$40,000. A \$50,000 investment would produce \$335 in the first year, replacing about 13% of pre-retirement income for a worker earning \$30,000 a year and 5.7% for a \$70,000 worker.

COULD SECURITY PLUS ANNUITIES REALLY CREATE A ROBUST ANNUITY MARKET?

- With a 10% take-up rate, 7.6 million new annuities would be purchased between 2008 and 2030.
- With an average purchase amount of just \$20,000 these annuities would generate \$76 billion in new annuity purchases at a 5% take up rate and \$152 billion at a 10% take up rate.

WHAT ARE THE BENEFITS OF THIS PRIVATE-PUBLIC PARTNERSHIP TO PROMOTE ANNUITIES?

- With the federal government providing marketing, administration, payment and customer service functions, the costs to buyers are lower and the return higher.
- Insurance companies do what they do best: invest the funds and guarantee lifelong payments.

The Initiative on Financial Security at the Aspen Institute is a leading policy program focused on bold solutions to help all Americans at every stage of life to save, invest, and own.

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