

SECURITY PLUS ANNUITIES

FREQUENTLY ASKED QUESTIONS

WHAT ARE THE USUAL PROPOSALS FOR ENCOURAGING THE USE OF ANNUITIES?

- Many advocate requiring or encouraging annuities in 401(k) plans as a payout option.
- Others suggest more tax incentives to boost annuity purchases.
- Drawbacks: 1) plan sponsors will strongly resist unless they receive relief from legal liability; 2) annuities purchase decisions are highly personal, not “one size fits all”; and 3) tax incentives favor the rich.

HOW ARE SECURITY PLUS ANNUITIES DIFFERENT?

- Aspen IFS proposes a public/private partnership, based in the Social Security Administration, to market and distribute “starter” annuities” called Security Plus Annuities or SPAs.
- SPAs are a basic, immediate, inflation-protected, life annuity that adds an additional layer of Social Security-like income on top of Social Security benefits.
- Retirees could choose to buy SPAs in the first year of receiving Social Security benefits and in up to \$100,000 in purchase amount.
- Retirees would receive their SPA payments in their monthly Social Security benefit checks.
- SPAs would be competitively priced on a group basis, and private sectors insurance companies, chosen by the government through a bidding process, would underwrite SPAs.

HOW MUCH EXTRA INCOME COULD A SECURITY PLUS ANNUITY PROVIDE AND HOW SIGNIFICANT COULD THAT INCOME BE FOR LOW- AND MODERATE-INCOME AMERICANS?

- That depends on how much a retiree decides to invest as well as current interest rates and other factors.
- Using today’s annuity purchase rates from the TSP for federal employees, a retiree at age 66 could purchase about an additional \$131 in beginning monthly income for life for \$20,000.
- A \$50,000 investment would produce a \$327 monthly check replacing about 13% of pre- retirement income for a worker earning \$30,000 a year and 5.6% for a \$70,000 worker.

HOW WOULD THE SECURITY PLUS ANNUITY PUBLIC/PRIVATE PARTNERSHIP WORK?

- The federal government serves as an intermediary between the public and the insurance industry.
 - It markets and distributes SPAs that are priced at current market rates but without premium taxes or advisor fees.
 - It provides supportive administrative, payment and customer service functions that a private annuity company usually performs.
 - It selects annuity providers.
- The insurance company does just what it does best. It invests premium payments to support the guaranteed lifelong payments.

WHAT IS THE ANTICIPATED IMPACT OF SECURITY PLUS ANNUITIES?

- SPAs could be implemented quickly while it will take years of negotiation, legislation and regulation to insert annuities into 401(k) plans or create new tax benefits.
- That means that the 3-4 million Baby Boomers already reaching retirement each year could easily boost their retirement income with an SPA that, when combined with Social Security benefits, provides complete protection from market, longevity and default risk.



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