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MONEY

Incentives to Buy  
Annuities Gain  
Push in Congress

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Congressional leaders are pushing a variety of plans that would offer various incentives and tax credits to businesses and workers using annuities in their retirement accounts.

Just last month, a group of House Democrats unveiled a litany of new incentives they hope to turn into legislation that would encourage Americans to better prepare their finances for retirement. Part of that plan, called AmeriSave, would offer tax credits to businesses that provide workers the option of converting a 401(k) balance into an annuity at retirement. In June, Earl Pomeroy, a Democratic House member from North Dakota, introduced legislation that would allow workers to withdraw a portion of their 401(k) balance tax-free, so long as the income is generated by an annuity.

Whether these efforts make it into law remains to be seen. However, the attention inside Congress highlights the growing concern with retirement-income security for workers who have planned poorly and saved haphazardly for life after work.

Those now approaching retirement will rely largely on the income generated by Social Security and whatever money they accumulate in their 401(k) accounts. The challenge for many: to balance the need to create as much income as possible yet ensure the account lasts as long as they do.

That's where lawmakers are stepping in. They see annuities as the answer for workers needing a stream of income they can't outlive.

On the surface, Congress's interest in annuities seems at odds with recent efforts by state and federal regulators to crack down sharply on annuity sales abuses. Yet, where regulators are taking aim at so-called deferred annuities, lawmakers are pushing immediate annuities -- a type of annuity that is all but forgotten in retirement planning.

Immediate annuities are designed to begin paying out a stream of income immediately, unlike deferred annuities, which spend years accumulating assets before distributing the money. With an immediate annuity, a retiree trades a lump sum of cash for guaranteed, recurring payments that can last a set number of years or for as long as the annuity owner lives.

Despite their utility in providing guaranteed income, immediate-annuity sales are small. Last year, they rang up total sales of about \$5.3 billion, according to Limra International, an insurance-industry association. That's less than 2.5% of the more than \$218 billion in total annuity sales in 2004.

Annuity sellers tend not to promote immediate annuities because commissions are lower and, once the money has been annuitized, there is no opportunity for repeat sales, unlike with deferred annuities. That also means that sales abuses are less likely with an immediate annuity.