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# Lawmakers Seek to Prevent Americans Outliving Savings (Update1)

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(Updates with data from EBRI in sixth paragraph.)

By Margaret Collins

June 11 (Bloomberg) -- Lawmakers concerned that Americans may outlive their savings are looking at ways to make the money last through retirement.

Workers who relied on traditional pensions are now trying to pay for retirement with their 401(k) savings, according to the Center for Retirement Research at Boston College. In 1983, 62 percent of workers had only company-funded pensions, while 12 percent had 401(k)s, the center said. In 2007, those numbers were 17 percent and 63 percent, respectively.

Most American households at or near retirement "are consumed by fear," said Anthony Webb, associate director of research at the research nonprofit. "Instead of walking on the beach hand-in-hand in retirement, the reality is that they're sitting around the kitchen table cutting coupons."

Legislators and regulators are focusing on income guarantees such as annuities to supplement traditional retirement plans. Annuities are insurance products that can provide monthly income for life in exchange for upfront payments.

Workers underestimate how much money they'll need in retirement and how long they'll live, said Roger Ferguson, chief executive officer and president of TIAA-CREF, whose New York-based firm manages \$426 billion of retirement funds for 3.7 million teachers and academic researchers. The life expectancy of a 65-year-old U.S. male is 82, and 85 for a 65-year-old female, according to the Social Security Administration.

## Out of Money

"Nearly half, or 47 percent, of those on the verge of retirement are predicted to run out of money," said Jack VanDerhei, research director for the Washington-based Employee Benefit Research Institute. "They won't be able to cover their basic expenses and uninsured health care costs." EBRI has a database of 24 million 401(k) participants and 20 million IRA accounts.

The average 401(k) account balance as of March 31 was \$66,900, according to Boston-based Fidelity Investments, which has 11 million participants. The average monthly Social Security benefit as of April was \$1,067.

"It's going to be quite important for policy makers to turn their attention relatively quickly to the retirement issue as one of, if not the, most important social crisis that remains in America right now," said Ferguson, a former Federal Reserve vice chairman.

A Senate Special Committee on Aging hearing June 16 on the issue follows a request for comment from the U.S. Labor and Treasury departments on retirement security including annuities in plans, and whether regulators should require employers with 401(k)s to offer a lifetime income option or automatically enroll employees who don't make a selection.

## Do the Homework

"If pension plans can fail, why can't annuities? Who is guaranteeing them?" Joseph Ortiz, a 34-year-old Chicago construction worker, said in a telephone interview. "At least with a regular 401(k), if something goes horribly wrong you can look at yourself and say 'I didn't do my homework.'"

The agencies received more than 700 responses, including one from Ortiz. It will likely take months to review them and they may not lead to a regulatory recommendation, Assistant Labor Secretary Phyllis Borzi, who's scheduled to testify at the hearing, said in a telephone interview.

The administration has no plans for a mandate, said Jared Bernstein, executive director of the White House Task Force on the Middle Class. "We are by no means saying that everybody should have an annuity," he said in a telephone interview.

## Reluctant Employers

Participants in 401(k)s generally don't buy annuities when retiring. Less than 1 percent take them, according to Hewitt Associates, a Lincolnshire, Illinois-based human-resources company.

Many retirees lack sufficient funds to purchase annuities large enough to cover their spending, few payments are adjusted for inflation and heirs generally do not receive the benefits at death, according to the Government Accountability Office.

Employers have been reluctant to adopt them within their retirement plans because of concerns about fees and potential legal liabilities for companies who pick the insurers. There's also the issue of how workers who switch jobs can transfer the guarantees, said Lori Lucas, defined contribution practice leader for Callan Associates Inc., a San Francisco-based investment-consulting firm.

Last year, 4 percent of employers offered a defined contribution retirement plan such as a 401(k) that allowed participants to allocate a portion of contributions to an income guarantee, according to Callan, which surveyed 90 plan sponsors with more than \$100 million in assets. That compares with 3 percent in 2008.

## Insurer Offerings

Insurers and investment managers are trying to address some of these issues as they develop annuities that fit inside 401(k)s, Lucas said. MetLife Inc. and Prudential Financial Inc., the two largest U.S. insurers, and investment managers BlackRock Inc. and Goldman Sachs Group Inc., are blending income guarantees with target-date 401(k) portfolios, which shift to more conservative assets such as bonds as investors near retirement.

Prudential has had 401(k) funds with annuities since 2007, attracting 21,000 participants and \$333 million in assets as of March, said Mark Foley, vice president of the Newark, New Jersey-based company's institutional income group.

AllianceBernstein Holding LP and Putnam Investments LLC are working on similar products. Pacific Investment Management Co. started funds in November that are suitable for 401(k) plans, offering monthly cash from a Treasury Inflation Protected Securities portfolio for 10 years or 20 years in retirement, said Tom Streiff, the firm's retirement product manager.

## Savings Alarm

Workers' savings accounts should incorporate an income plan before retirement, said Shlomo Benartzi, a UCLA Anderson School of Management professor who specializes in behavioral finance. Half of retirees in their 80s can't be responsible for their money decisions because they have some cognitive impairment, Benartzi said. "It's like a plane without landing gear," he said. "We guide people in take off and in the air but not when landing."

One pending bill, introduced in December by Senators Jeff Bingaman, a New Mexico Democrat, Johnny Isakson, a Georgia Republican and Herb Kohl, a Wisconsin Democrat, would require corporate retirement plan sponsors to disclose how much monthly income employees' portfolios would generate in retirement.

Ortiz said he worries about having enough to live on, especially when he looks at his 80-year-old grandmother, who still works as a bank teller and is running out of money. While that's an alarm to save more, he said, it's not enough of a reason to have a retirement plan with a guarantee.

"How do you know the government's going to be able to borrow more money next time to rescue an AIG to be able to pay that annuity?" Ortiz said.

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