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CAPITAL

By DAVID WESSEL



How Not to Outlive Your Savings

Increasing Life Expectancies Boost the Case for Annuities; Sorting the Good From the Bad

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Consider these facts. We are living longer, and spending more time in retirement than our grandparents imagined possible. About 20% of today's 70-year-old women will make it to age 95, the actuaries say.

More of us retire with 401(k)-style defined-contribution plans that provide a wad of cash at retirement. Fewer get the security of pensions that promise a check each month for life. And President Bush and others want to make Social Security more like those 401(k) plans.

We cannot, we have learned, count on the stock market to rise inexorably and enlarge our savings so we can retire worry-free.

CAPITAL EXCHANGE

[Reader comments](#)¹ -- and David Wessel's answers -- about the Capital column. Published Tuesday mornings.

Submit comments to Mr. Wessel at capital@wsj.com²


Although not enough Americans take advantage of it, there is in fact a way to buy some low-cost insurance, to assure ourselves that we won't outlive our savings or see them eroded by inflation, just as we buy life insurance to protect our families should we die young.

And it wasn't invented by some Wall Street whiz. Ancient Romans sold something called an annua that promised a stream of cash in return for an upfront payment.

Today, there are all sorts of annuities, many designed intricately to allow people to dodge taxes while they are accumulating savings, some notoriously bad deals because there are so many fees. "You've got that whole bucket painted with the 'scarlet A,' " says John Ameriks, an analyst at Vanguard Group.

Still, there is surprisingly little use of annuities to help people turn their retirement savings into monthly income, to draw down their savings in retirement while insuring against the risk of outliving them. These are the deals where a 70-year-old man and 65-year-old woman put down \$100,000, and MetLife Inc. pays them \$600 a month for as long as either

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ON THE WEB

- For a primer on retirement issues by Prof. Jeffrey Brown, see <http://www.paycheckforlife.org>³
- For more on Prof. Munnell, see <http://www.bc.edu>⁴
- For company information on annuities, see -- MetLife: myretirement.metlife.com⁵
- Vanguard: <http://flagship5.vanguard.com>⁶
- TIAA CREF: <http://www.tiaa-cref.org>⁷

ABOUT DAVID WESSEL

David Wessel, 50 years old, The Wall Street Journal's deputy Washington bureau chief, writes Capital, a weekly look at the economy and the forces shaping living standards around the world. He also appears frequently on CNBC.

David has been with The Wall Street Journal since 1984, first in the Boston bureau and then the Washington bureau, where he was chief economics correspondent. During 1999 and 2000, he was the newspaper's Berlin bureau chief. He also has worked for the Boston Globe and at the Hartford (Conn.) Courant and Middletown (Conn.) Press. He has shared two Pulitzer

lives.

In all, Americans put only \$5.3 billion into this sort of annuities and \$213.3 billion into annuities designed to help them build savings. Most employers don't even offer the option of turning savings into annuities. Very few insurers sell annuities that guarantee payments that keep up with inflation.

LIFE IS LONG

Don't underestimate your chances of living to a very old age.

- A person who reaches 65 has a life expectancy of 85. What are the odds he/she will live beyond 85?

Answer: 50%

- Consider a 65-year-old-couple. What's the likelihood that one or both will live to age 97?

Answer: 25%

Source: MetLife

Since people reach retirement unsure how long they will live, economists teach that the smart thing would be to put a lot of their money into annuities. "Almost nobody does," says James Poterba, a Massachusetts Institute of Technology economist. "The annuity market in the U.S. amounts to a few billion dollars of purchases a year, a piddling amount by comparison to the wealth of retirement savers."

Why?

Part of the problem is on the financial-services company side. Sales commission are bigger on products that help people save money (which the companies manage) than on products that help them wisely draw down savings. Shopping for annuities is harder than shopping for term life. And until very recently, few firms have used their marketing savvy to push annuities for retirees looking to buy insurance.

Some experts say the available annuities are expensive for what you get, though that seems to be changing for the better as competition heats up. But people who buy annuities still tend to be those with occupations and medical histories that suggest they'll live longer than average, such as economics professors. Annuities are priced accordingly. That makes them a bad deal for people likely to die sooner: Their monthly checks are smaller than they should be.

Part of the problem is on the consumer side. Consumers aren't clamoring for these, and probably wouldn't even if they were cheaper. "I can't offer you chocolate chip mint if you don't know what ice cream is," says Beth Hirschhorn, chief marketing officer for MetLife.

Many people don't understand the odds that they may live a very long time. MetLife last year put a question to 1,201 Americans between ages 56 and 65: Consider a 65-year-old couple, it asked. What are the odds that one or both will live to age 97? The correct answer: One in four. Only 16% of those polled got it right. Most people underestimated the odds. Only 37% understood that whatever your life expectancy, you have a 50% chance of living longer.

That's not the whole story. "People are very concerned that if they buy an annuity that pays them until they die, and tomorrow morning they have a heart attack then all those financial assets are gone. It just seems like a really bad deal to them," says Mr. Poterba. Far-sighted financial-services companies are wrestling with this. MetLife has learned that fear, which often sells life and fire insurance, doesn't work. Hence the company's upbeat talk about "retirement security."

prizes, one for a Boston Globe series on race in the workplace in Boston and the other for Wall Street Journal stories on the corporate scandals of 2002.

He is the co-author, with fellow Journal reporter Bob Davis, of "Prosperity: The Coming 20-Year Boom and What It Means to You" (Random House/Times Books, 1998), which argued that the next 20 years will be better for the American middle class than the previous 20 years.

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HOW AN ANNUITY PAYS OUT

Here's what a typical \$100,000 lifelong immediate fixed annuity will pay out monthly.

65 year-old man, single annuity: \$639

70-year old woman, single annuity: \$675

70-year-old man and woman, joint annuity and survivor: \$585

Note: Rates vary from state to state; these are for California residents. Joint annuities pay out to the couple and survivor.

Source: ImmediateAnnuity.com

So what's the answer? Financial-service companies, predictably, are pushing a tax break for annuity buyers. That relies mainly on the dubious case that if annuities were cheaper, people would buy more.

Boston College economist Alicia Munnell suggests the government may be best-positioned to offer low-cost, inflation-adjusting annuities directly or to create a pool large enough to spread risks more broadly than individual insurers can or to specific standard products so consumers could shop more easily. The British government even requires that some pensions be turned into annuities.

But the most inviting option is to change the automatic defaults in 401(k)-style plans (including new Social Security private accounts, if they come to be). Today, you can only get an annuity if you really want one, and then you usually have to do the shopping yourself. Employers generally aren't much help, and there are all sorts of regulations that can interfere with employers pushing workers to make the wise choice.

The alternative is to change the rules so that your nest egg automatically turns into an annuity that lasts as long as you or your spouse live -- unless you make the effort to make another choice. Think of it as arranging the cafeteria so the healthy food is at the front. You can pass it by and go to the French fries, but you have to make an effort to do so.

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