Advanced Markets

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# Government recognizes and supports **the value of annuities**

## How Washington is adapting to meet the changing retirement landscape

### Addressing the challenges of traditional retirement plans in a modern age

Federal agencies support LONG-TERM FINANCIAL PRODUCTS like **ANNUITIES.**

In the past, there has been a lot of scrutiny and negativity about annuities in the media. This environment has made it difficult for financial professionals to assist clients – both in addressing their financial well-being and discussing when an annuity product may be in their best interest. However, recently, there has been a general recognition that annuities can offer certain benefits to employer-provided retirement plans.

**In the last year, several federal agencies have spoken publicly about the value of annuities.** In June 2011, the nonpartisan Government Accountability Office (GAO) published a report that strongly endorses annuities as part of the answer to the nation's retirement crisis. Earlier this year, the Treasury Department proposed rules that promote annuitizations for life. Additionally, the Department of Labor is currently working on rules that will complement the Treasury's efforts.

Accompanying the Treasury Department's rules was a historic report from the White House Council of Economic Advisers. The report strongly supports the use of annuities in retirement plans to help address longevity risk (i.e., the risk of not having enough money in retirement). The general recognition by these federal agencies that annuities can help address the problem of outliving your money is encouraging.



Allianz Life Insurance Company of New York
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# How government is responding to growing retirement concerns.

Addressing
**LONGEVITY RISK**
is a real concern for individuals and their retirement plans.

The White House Council of Economic Advisers' white paper, *Supporting Retirement for American Families*,[1] expresses the need for households to invest in a way that provides income for life to supplement Social Security. Multiple factors contributed to this conclusion. For example, the risk of running out of money in retirement has grown considerably since defined benefit pension plans fell out of favor. Also, longevity risk to women is especially great, given they tend to live longer and have fewer investable assets than men. The Council provides a host of data to support its claims, including a study recognizing that "the share of households at risk of not having sufficient assets for retirement at age 65 has increased from 31% in 1983 to 51% in 2009."[2]

One proposed change makes it easier for employees to use part of their retirement plan or IRA money to buy "longevity insurance" – or an annuity that will kick in at age 80 or 85 and pay income for the rest of an employee's life. With longevity insurance, employees can invest most of their assets to provide income for a set period of time – to age 80, for example – then let the insurance provide the income after that age. It also lets employees focus on investing their other assets for the set time period before age 80, which is considerably easier than managing assets for an indefinite life expectancy. Under this rule, employees will have more certainty that they will have enough income for life, allowing them to spend what they have more freely.

The Department of the Treasury, which regulates employer retirement plans through the Internal Revenue Code, proposed several new rules to make it easier to use annuities in retirement plans specifically to address longevity risk.

[1] February 2, 2012.

[2] Alicia H. Munnell, Anthony Webb, and Francesca Golub-Sass, "The National Retirement Risk Index: After the Crash," Issue in Brief 9-22, Center for Retirement Research at Boston College, October 2009.

There are options that can **ADDRESS YOUR CLIENTS' CONCERNS** about outliving their money.

The big barrier to providing longevity insurance is the required minimum distribution (RMD) rules, which are currently applied beginning at age 70½. Normally, an RMD is figured by dividing the 12/31 value of the account by the remaining life expectancy. If you have to take an RMD out of a longevity annuity, you would be eroding its usefulness when you reach 80 or 85. Under the proposed RMD rule, you could exclude the value of the longevity annuity from the 12/31 value. You can preserve it all until it is needed. The longevity annuity can't be too big, though. You can only exclude its value if it was purchased with the lesser of 25% of the account or $100,000.

Another proposed Treasury rule would allow pension plan participants to choose an annuity payment from only part of their pension plan. In the past, employees had to make all-or-nothing decisions at retirement, such as if they would receive a lump-sum distribution or annuitization payments for them (and their spouses) for life. Employees are very reluctant to choose the annuitization payments because they lose control of all their funds. With the new rule, the employee will be able to choose an annuitization for just part of their pension plan balance and roll the rest into IRAs. Treasury hopes this flexibility will encourage people to annuitize some of their pension funds.

Finally, a new proposal would allow employees with both a 401(k) plan and a defined benefit plan the ability to transfer all or a portion of their 401(k) savings into the defined benefit plan to increase their pension in retirement.

## What are the options?

Allianz Life Insurance Company of North America (Allianz) and Allianz Life Insurance Company of New York (Allianz Life® of NY) have not designed specific "longevity insurance" products (i.e., those that begin at age 80 or 85). However, most of our products offer lifetime income riders (at an additional cost) as well as annuitization options that can help address your clients' concerns of outliving their money. They can purchase these products in IRAs and small-business retirement plans, as well as hold them as nonqualified annuities.

**To help explain annuities and how they can help your clients find a level of financial certainty in an uncertain world, we created a new client tool (AMK-285-N).** This unique piece highlights the government support discussed in this flyer and helps you explain the advantages of annuities to them.

**For more information or a copy of the client brochure,** contact the Sales Desk at 800.542.5427 or the FASTeam at 800.950.7372 or 877.796.6880 (New York) and ask for the Advanced Markets information line.

The information above is partially based on proposed legislation and is subject to change. It is not intended to be used as the sole basis for investment decisions, nor should it be construed as advice designed to meet the particular needs of an individual investor.

Annuities are designed to meet long-term needs for retirement income. They also provide guarantees against the loss of principal and credited interest, tax deferral, and a death benefit for beneficiaries.

Purchasing an annuity within a retirement plan that provides tax deferral under sections of the Internal Revenue Code results in no additional tax benefit. An annuity should be used to fund a qualified plan based upon the annuity's features other than tax deferral. All annuity features, risks, limitations, and costs should be considered prior to purchasing an annuity within a tax-qualified retirement plan.

In order to provide a recommendation to a client about the transfer of funds from an investment product to a fixed insurance or annuity product, you must hold the proper securities registration and be currently affiliated with a broker/dealer.

Distributions are subject to ordinary income tax and, if taken prior to age 59½, a 10% federal additional tax.

# True to our promises … so you can be true to yours.®

As leading providers of annuities and life insurance, Allianz Life Insurance Company of North America (Allianz) and its subsidiary, Allianz Life Insurance Company of New York (Allianz Life® of NY), base each decision on a philosophy of being true: **True to our strength** as an important part of a leading global financial organization. **True to our passion** for making wise investment decisions. And **true to the people we serve**, each and every day.

Through a line of innovative products and a network of trusted financial professionals, Allianz and Allianz Life of NY together help people as they seek to achieve their financial and retirement goals. Founded in 1896, Allianz, together with Allianz Life of NY, is proud to play a vital role in the success of our global parent, Allianz SE, one of the world's largest financial services companies.

While we pride ourselves on our financial strength, we're made of much more than our balance sheet. We believe in making a difference with our clients by being true to our commitments and keeping our promises. People rely on Allianz and Allianz Life of NY today and count on us for tomorrow – when they need us most.



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