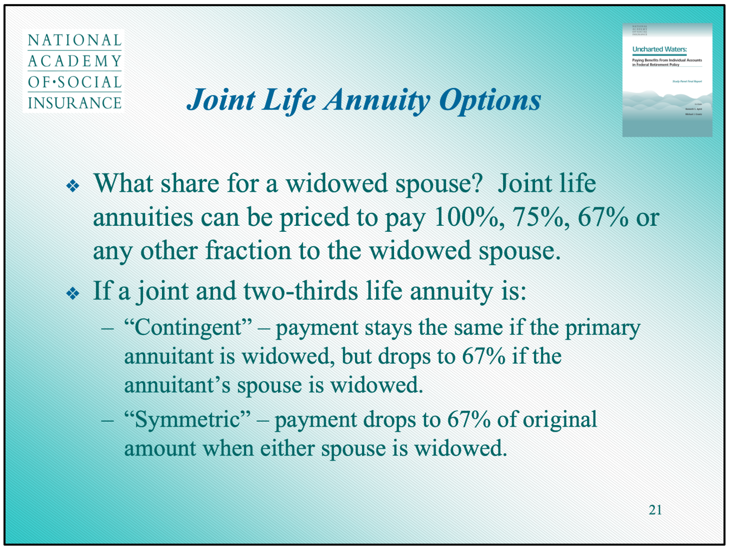
Slide 20

Karen Holden will discuss issues and choices with regard to annuities for married couples.

Slide 21



Many choices are possible in joint-life annuities.

How much should the widowed spouse receive? Annuities can be priced to pay the full prior payment (100% survivor payment); or to reduce the survivor payment to 75 percent, 67 percent, 50 percent, or some other fraction of the original amount.

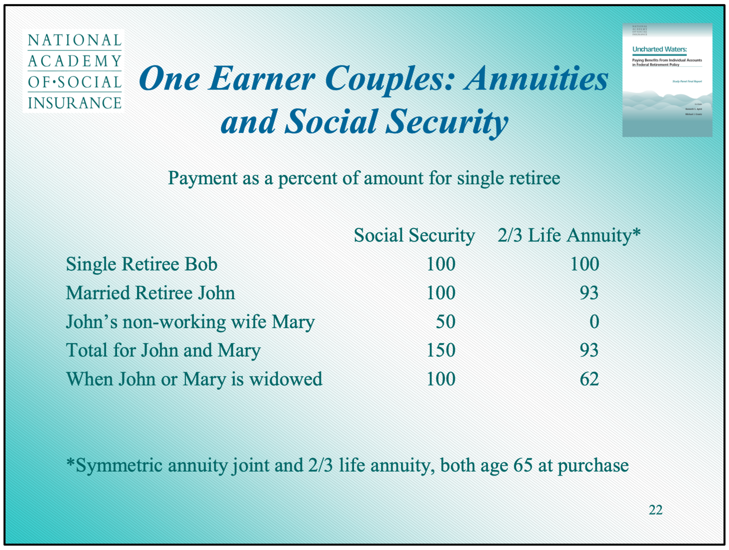
Another choice is whether joint-life annuities will be *symmetric* or *contingent*. If John buys a contingent joint and two-thirds annuity, the payment for his widow will fall to two-thirds of the original amount if he dies, but the payment will remain the full original amount if he is widowed.

In contrast, if he buys a symmetric joint and two-thirds annuity, the payment will drop to two-thirds of the original amount when either he or his wife is widowed.

The minimum federal requirement for spousal protection in private pensions is contingent. The spouse must be offered a 50 percent survivor benefit. The law does not require that the pensioner's benefit be reduced if he or she is widowed.

Each type has pros and cons that policymakers might want to address.

Slide 22

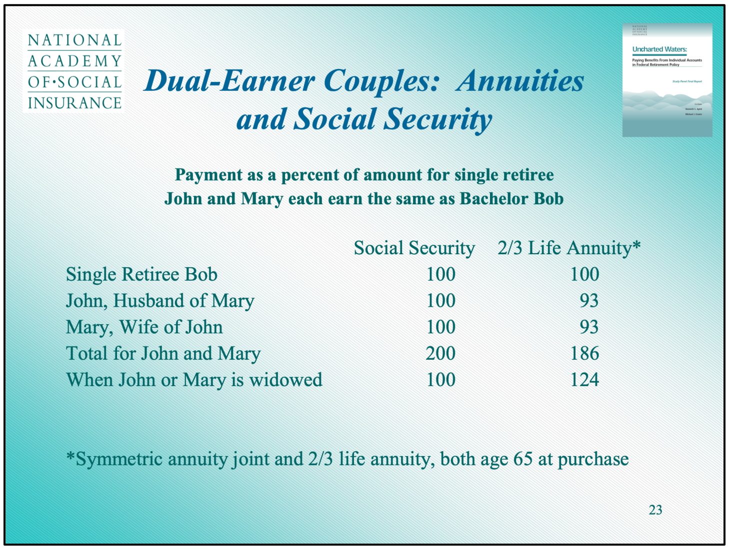


Symmetric joint and two-thirds life annuities are like Social Security in some respects and different in others.

In traditional Social Security, a one-earner couple receives 150 percent of the benefit of a single retiree (the spouse can get a separate check equal to 50 percent of the worker’s benefit). The widowed spouse receives two-thirds of the couple’s prior combined amount, or 100 percent of the single retiree’s benefits. The cost of spousal benefits is borne by all workers paying into the Social Security system.

When buying a joint-and-survivor annuity, the retiree takes a reduction in his or her monthly payment to provide survivor protection for a spouse. The size of the reduction would depend on the respective ages of the husband and wife. If John and Mary were both age 65, a two-thirds survivor annuity would lower John’s initial payment to about 93 percent of what a single annuitant would receive. No supplemental annuity is paid to John’s wife. When one of them dies, the survivor receives two-thirds of the “93-percent annuity,” or about 62 percent as much as a single retiree would have from an account like John’s.

Slide 23



If members of dual-earner couples compare their annuities to those of single persons with similar earnings, they sometimes have more and sometimes have less.

This chart illustrates a case where the couple, John and Mary, each individually earn as much as Bachelor Bob. If each bought symmetric joint and two-thirds life annuities, each would receive somewhat less than Bob (about 93 percent) because each of their annuities covers two lives.

Then, when either John or Mary dies, the surviving spouse will receive two-thirds of each partner's annuity (62% + 62% = 124%).

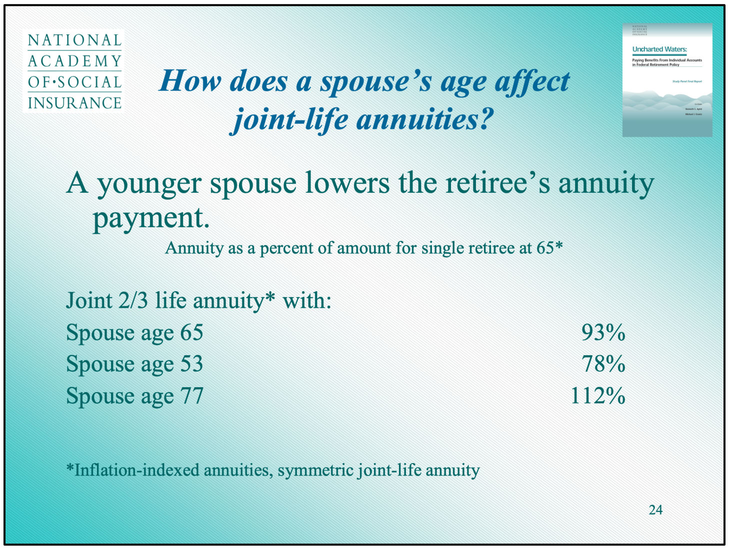
Compared to traditional Social Security rules for couples, the 2/3 joint life annuities would pay slightly less to the couple while both are alive and slightly more to the widowed spouse because both annuities are added together.

.

In brief, there is a great deal of variation in how annuities might compare to traditional benefits retired couples in different circumstances.

Whether ultimate payments from annuities plus traditional benefits in various Social Security reform plans would be higher or lower will depend on plan details and how annuities are offset against traditional benefits. Those questions merit attention in considering specific plans (which this Panel did not do).

Slide 24



The spouse's age will affect the size of the annuity any given account will buy. In general, a younger spouse will lower the initial annuity amount, because a younger spouse has a longer life expectancy.

If a 65-year-old retiree were to buy a joint and two-thirds symmetric life annuity, it would start out at about 93 percent of the amount a single retiree would get (assuming the spouse was also age 65).

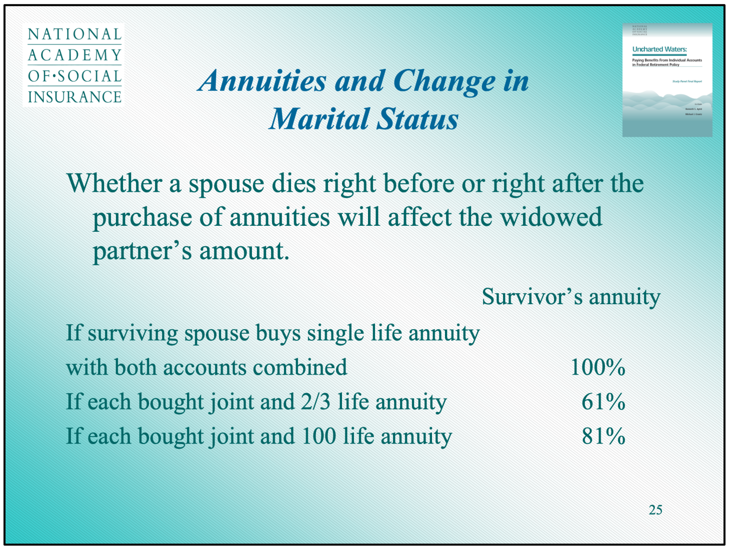
If the spouse was much younger, say only 53 years old, the reduction in the initial annuity would be larger. It would start out at 78 percent as much as a single retiree age 65 would receive.

[Karen, I would not raise this complexity unless you are asked, but I believe this calculation assumes that the widowed spouse would get an immediate payment if widowed at, say, 54 years of age. The reduction would not be quite as much if the widowed spouse would not receive a payment until, say age 60 –like SS, even if widowed sooner..]

On the other hand, an older spouse of , say, age 77 would cause the retiree's initial annuity to be higher – 112% than what a single retiree would get. [*This occurs because* *there is a fairly high probability that the married retiree in this case will become widowed and have his or her annuity fall to 2/3 of the prior amount.]*

The main point is that age disparities between spouses will affect the size of annuities that each get if they buy joint-life annuities.

Slide 25



In general, life annuities can not be rewritten to shift from a single-life to a joint-life annuity, or vice versa. This could affect individuals' decisions about whether and when to buy annuities.

Whether a spouse is widowed right before or right after buying annuities could make a big difference in the size of the widowed spouse's annuity.

For example, if John and Mary each had individual accounts, and one died before they bought annuities, the widowed spouse would inherit the deceased spouse's account and buy a single life annuity with the full combined accounts from both spouses.

On the other hand, if both John and Mary each had bought joint and two-thirds life annuities, their initial annuities would be reduced to about 93% of a full amount. When one died, the survivor would get 2/3 of that – or about 61% of what a single retiree would get their combined accounts.

Alternatively, each might have bought a joint and 100% life annuity. In this case, their initial annuities would each be reduced to 81% of the full amount. And the widowed spouse would continue to receive both of those annuities.

In brief, if one is widowed shortly after buying a joint-life annuity, there is no way to shift to a single life annuity. Similarly, if a single or widowed annuitant remarries, there is generally no way to change the annuity to cover a new spouse.