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Actuaries Raise Critical Issues on Annuities for Social Security Individual Accounts

Benefits Distribution Needs to be Carefully Examined, Say Experts

(Nov. 28, 2001—Washington) The Social Insurance Committee of the American Academy of Actuaries today released a white paper, "Annuitization of Social Security Individual Accounts," that analyzes the complex public policy issue of using annuities to pay benefits under individual accounts.

"There are serious issues of equity and cost-effectiveness in benefits distribution that must be weighed in considering individual accounts for Social Security," said Social Insurance Committee Chairman Bruce Schobel in releasing the paper.

The Academy is the public policy association representing U.S. actuaries. The Social Insurance Committee consists of government and private sector actuaries who have expertise in the Social Security program.

The committee's new paper discusses the pros and cons of mandatory versus voluntary annuitization, when to convert account balances, what benefit forms to use, who could provide the annuities, how to price annuities fairly, and how the benefits could be taxed.

"While most Social Security individual account proposals have focused on how benefits should be accrued and invested before retirement, there are equally important questions on how benefits are to be paid. Our analysis filters out both the ideological and political static, providing an unbiased analysis of these complex issues," said Schobel.

Because annuities are contracts that promise to pay beneficiaries a steady stream of income as long as they live, issues such as post-retirement mortality, survivor benefits, freedom of choice, investment risk, cost-of-living adjustments, etc., all will have an impact on the design and cost of an individual account program.

The issue brief was delivered to the members of the President's Commission to Strengthen Social Security prior to its November 29th meeting.

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The American Academy of Actuaries is the nonpartisan public policy organization for the U.S. actuarial profession. The Academy provides independent analysis to elected officials and regulators, maintains professional standards for all actuaries, and communicates the value of actuarial work to the media and public.