December 2012

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Highlights

Highlights of GAO-13-75, a report to congressional requesters

RETIREMENT SECURITY

Annuities with Guaranteed Lifetime Withdrawals Have Both Benefits and Risks, but Regulation Varies across States

Why GAO Did This Study

As older Americans retire, they may face rising health care costs, inflation, and the risk of outliving their assets. Those entering retirement today typically face greater responsibility for managing their retirement savings than those who retired in the past. Lifetime income products can help older Americans ensure they have income throughout their retirement. VA/GLWBs and CDAs, two such products, may provide unique benefits to consumers. According to industry participants, while annuities with GLWBs have been sold for a number of years, CDAs are relatively new and are not widely available. GAO was asked to review issues relating to these financial products. This report (1) compares the features of VA/GLWBs and CDAs and examines potential benefits and risks to consumers and potential risks to insurers, and (2) examines the regulation of these products and the extent to which regulations address risks to consumers. GAO analyzed insurance company product information, proposed and final rules and regulations, and studies and data related to retirement and product sales. GAO also interviewed federal and state regulators and selected insurers, consumer advocates, and industry organizations.

GAO provided a draft of this report to NAIC and SEC. Both provided technical comments, which have been addressed in the report, as appropriate.

View GAO-13-75. For more information, contact Alicia Puente Cackley at (202) 512-8678 or cackleya@gao.gov.

What GAO Found

Annuities with guaranteed lifetime withdrawals can help older Americans ensure they do not outlive their assets, but do present some risks to consumers. Two such products, variable annuities with guaranteed lifetime withdrawal benefits (VA/GLWB) and contingent deferred annuities (CDA), share a number of features but have some important structural differences. For example, both provide consumers with access to investment assets and the guarantee of lifetime income, but while VA/GLWB assets are held in a separate account of the insurer for the benefit of the annuity purchaser, the assets covered by a CDA are generally held in an investment account owned by the CDA purchaser. Consumers can benefit from these products by having a steady stream of income regardless of how their investment assets perform or how long they live, while at the same time maintaining access to their assets for unexpected or other expenses. VA/GLWBs and CDAs are complex products that present some risks to consumers and require them to make multiple important decisions. For example, consumers might purchase an unsuitable product or make withdrawal decisions that could negatively affect their potential benefits. Several insurers and regulators GAO spoke to said it was important for consumers to obtain professional financial advice before purchasing these products and making key decisions. These products can also create risks for insurers which, if not addressed, could ultimately affect insurers' ability to provide promised benefits to consumers.

VA/GLWBs are considered to be both securities and insurance products, and are therefore covered by both federal securities regulations and state insurance regulations. For CDAs, the National Association of Insurance Commissioners committee responsible for life insurance and annuities products has determined CDAs to be life insurance products subject to state law and regulation for annuities. According to SEC officials, existing CDAs have been registered as securities with SEC, and therefore are covered by both federal securities laws and regulations, and state insurance regulations. At the state level, NAIC has developed state disclosure and suitability regulations for annuity products. However, states differ on the extent to which they have adopted these annuity regulations, and some do not have protections at all. As a result, consumers in states that have adopted different regulations may benefit from different levels of protection. NAIC and state regulators told GAO that they are currently reviewing the regulations of CDAs. In March 2012, NAIC began reviewing existing annuity regulations to determine whether any changes are needed to address the unique product design features of CDAs, including potential modifications to annuity disclosure and suitability standards. It is also reviewing what kinds of capital and reserving requirements may be needed to help insurers manage product risk. In addition, NAIC and the National Organization of Life and Health Guaranty Associations are each working to determine whether state insurance guaranty funds, which protect consumers in the event insurers become insolvent, cover CDA products. Both agree that each state will have to reach its own conclusion about whether their particular state guaranty fund laws allow for CDA coverage. Until these regulatory issues are resolved, consumers may not be fully protected.