

# Annuities 101

**I.I.I. Webinar**  
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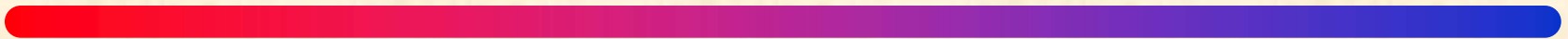


# *Presentation Outline*

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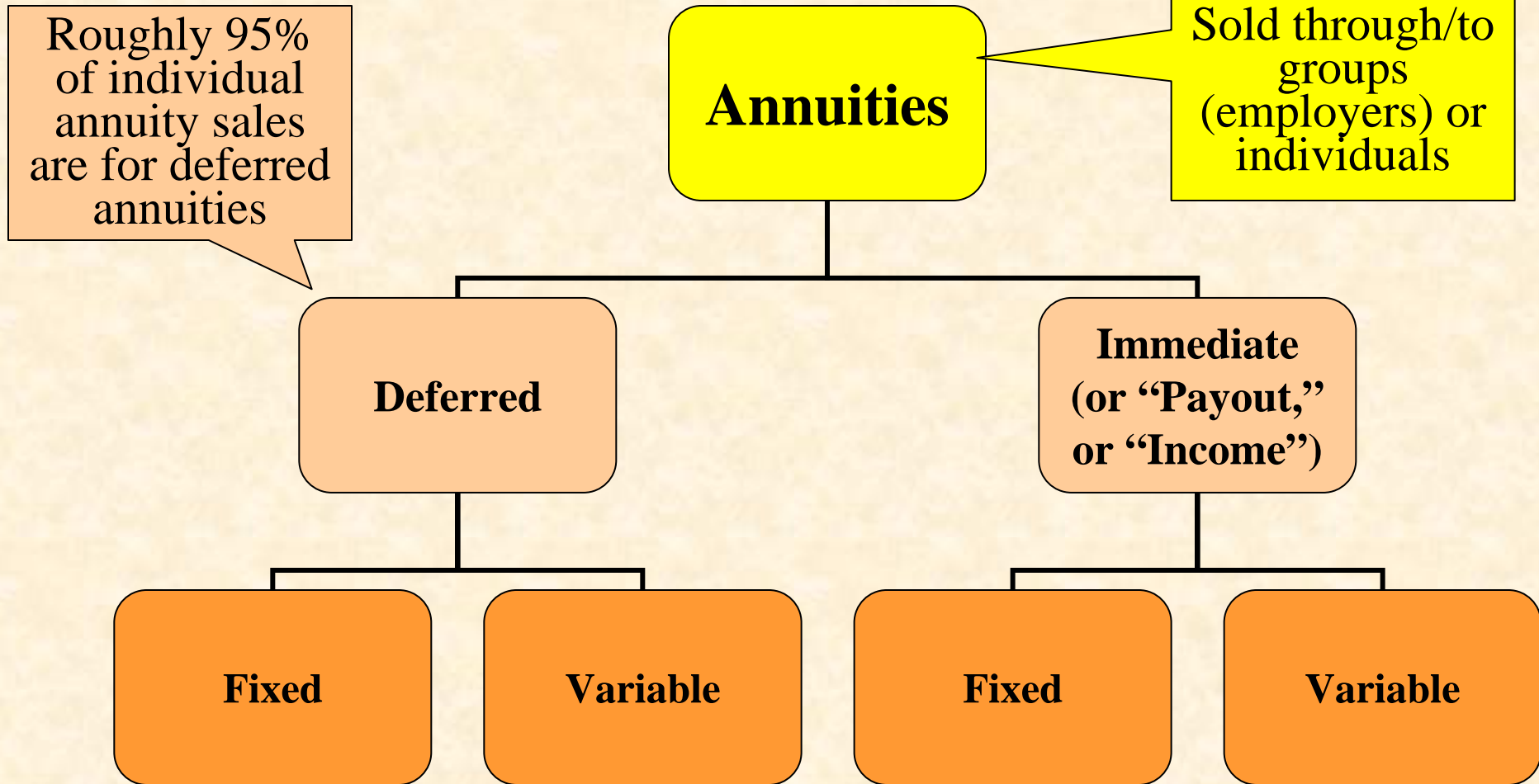
- I. Basic Annuity Categories
- II. Deferred Annuities
- III. Immediate Annuities
- IV. Can't I Just Do This Myself?
- V. Suitability
- VI. Buying Tips
- VII. I.I.I. and Other Online Resources

# Basic Annuity Categories



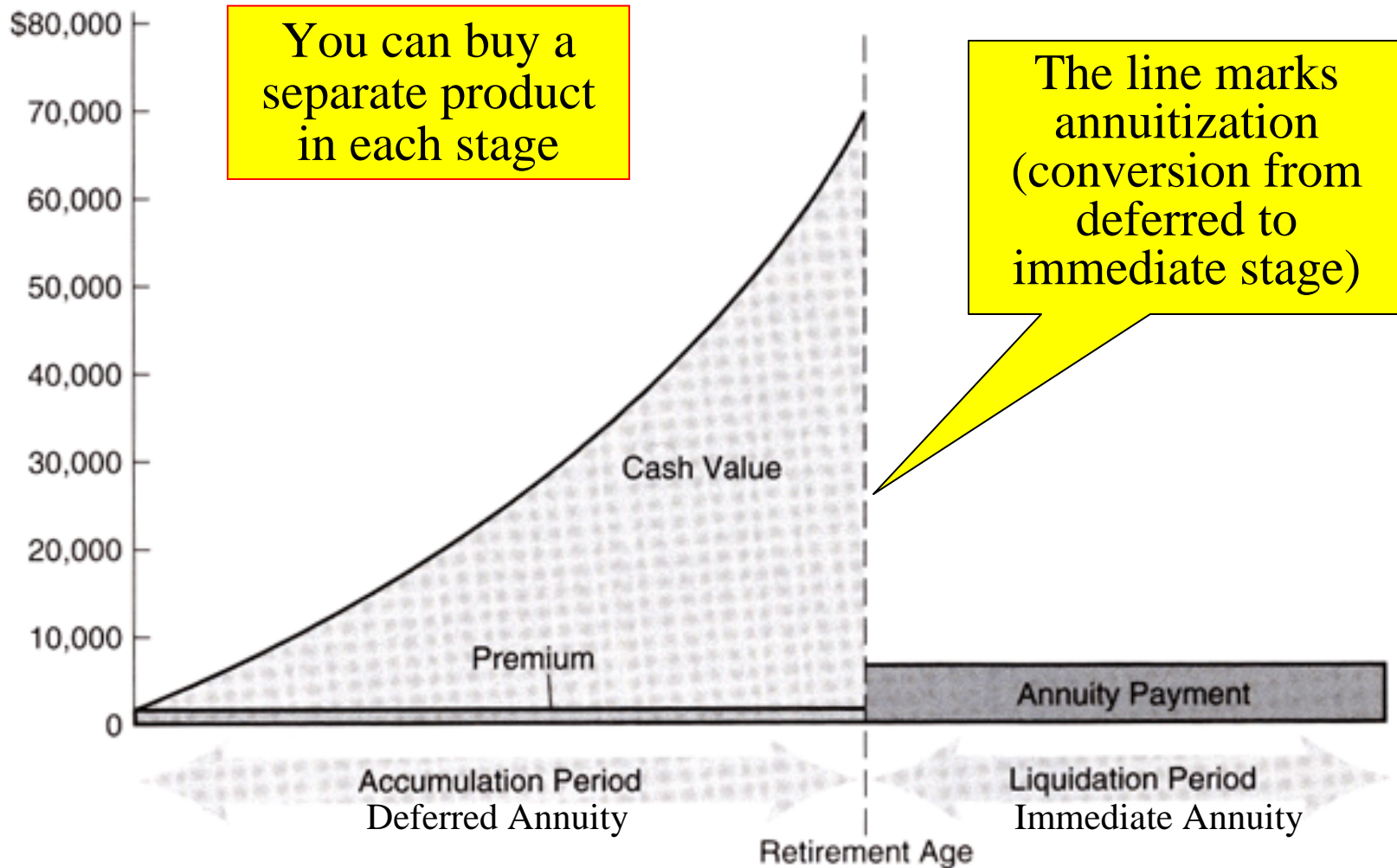


# *Annuity Types, Classified by When Withdrawals Begin & Underlying Investment*





# One Product, Two Stages: A Deferred Stage, Then an Immediate Stage

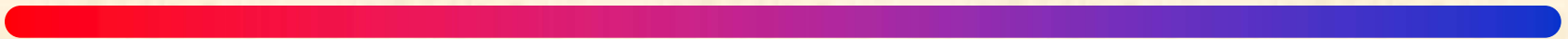




# *Differences Between Deferred and Immediate Annuities*

<b>Deferred Annuities</b>	<b>Immediate Annuities</b>
Function: Accumulating funds for future payout (mainly in a single sum, rarely as immediate annuity)	Function: Paying out funds, usually for life
Funded either by periodic contributions (premiums) that can be stopped or by a single sum	Usually funded by a single sum (can be from a deferred annuity)
Annuity can be surrendered, but this might trigger a withdrawal charge and/or income taxes	Once payout is started, cannot be stopped by annuity owner

# Deferred Annuities





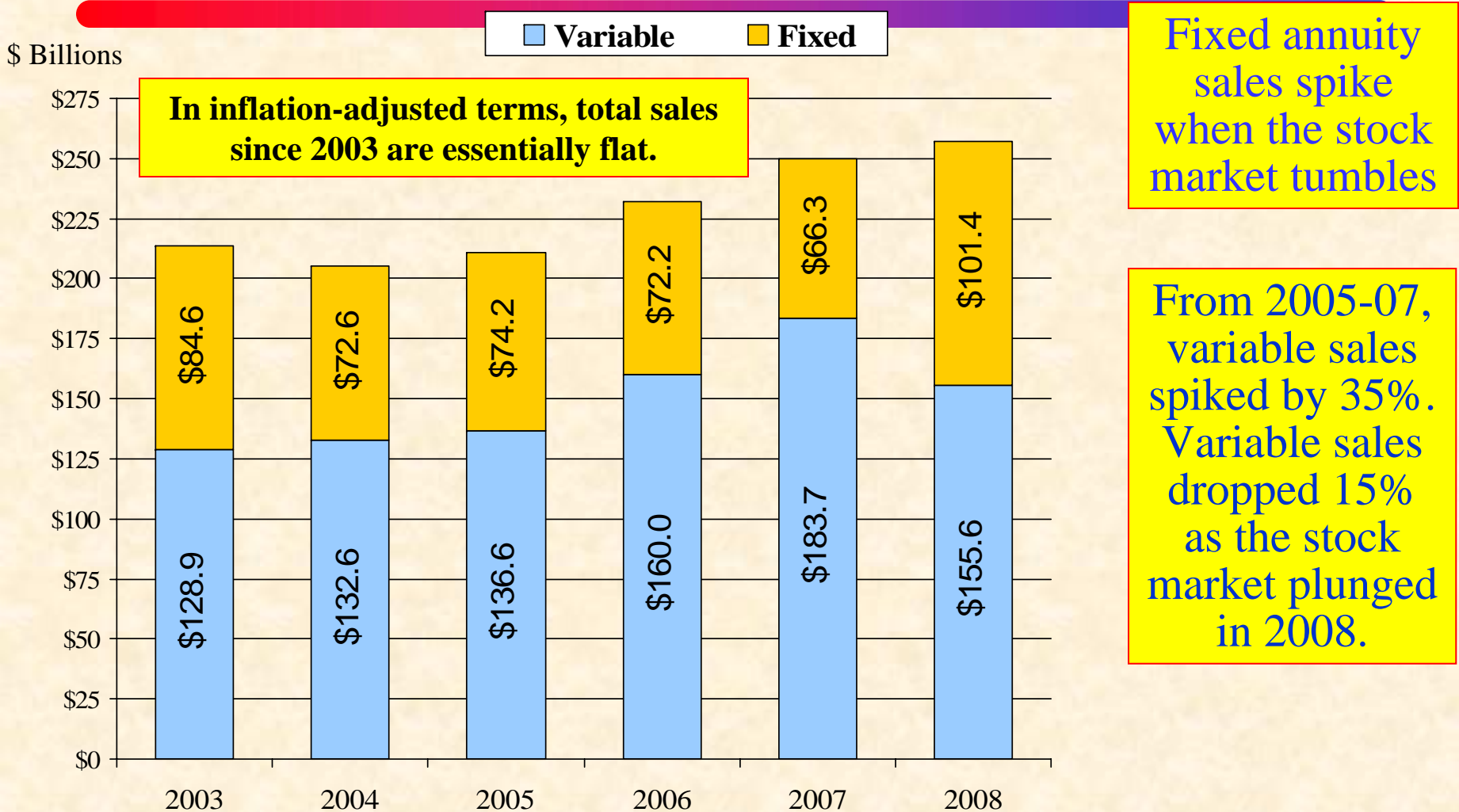
# Differences Between *Fixed* and *Variable* Annuities

<b>Fixed Annuities</b>	<b>Variable Annuities</b>
Interest credited by insurer based on performance of its “general account,” mainly bonds	Investment results from performance of insurance company’s “sub accounts,” similar to mutual funds
Guarantees principal and a minimum interest rate, and lifetime payment	Original product: Only a lifetime payment guarantee Added feature: minimum income/withdrawal guarantees
An insurance product, regulated by the states	An insurance product <i>and</i> a security, regulated by states <i>and</i> SEC





# Deferred Individual Annuity Sales, 2003-2008





# *Differences Between Variable Annuities and Mutual Funds*

<b>Variable Annuities</b>	<b>Mutual Funds</b>
Taxation on investment results is deferred until funds are withdrawn, then taxed at ordinary income rates	Taxation on investment results applies in year of activity, taxed at capital gain or ordinary income rates, as applicable
Original product: Only life income guarantees Added feature: minimum income/withdrawal guarantees	No guarantees
An insurance product <i>and</i> a security, regulated by states <i>and</i> SEC	An investment product, regulated by the SEC

# **Immediate (aka “Payout” or “Income”) Annuities**





# *Unlike Other Income Sources, Immediate Annuity Payments Come From Three Sources*

Each immediate annuity payment comes from...

Return of principal

Investment Income

The “survivorship pool”

This is the insurance aspect of immediate annuities. Part of premiums goes into a survivorship pool, and people who die “early” subsidize those who live longer.



## *Examples of Income from \$100,000 Paid in to a Traditional Immediate Fixed Annuity*

<b>Income Option</b>	<b>Yearly Income (no death benefit)</b>	<b>Yearly Income (minimum 15 years of income)</b>
Income for the life of a male, initially age 70	\$9,300	\$8,040
Income for the life of a female, initially age 70	\$8,556	\$7,872
Income for as long as either member of a couple initially age 70 is alive	\$7,548	\$7,380

# Can't I Just Do This Myself?

*No—Not if You Want to Insure That Your Income Lasts for Your Lifetime*

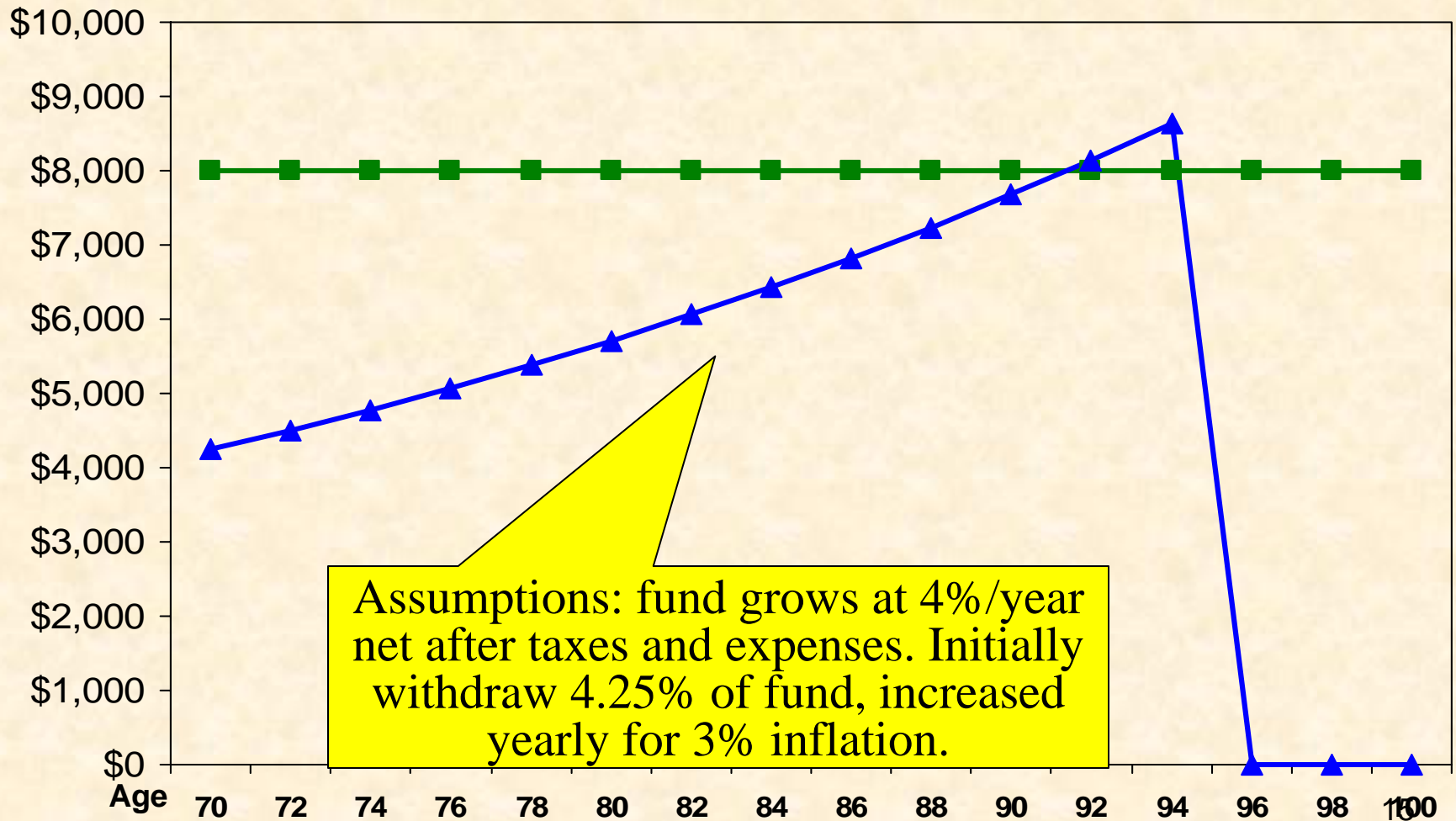




# *Income Comparison: Fixed Life Annuity, Male Age 70, \$100,000 Premium, vs. Invested Fund*

Yearly income

■ Life Annuity ▲ 4.25% method





# *How Long a Lifetime Should People Plan For?*

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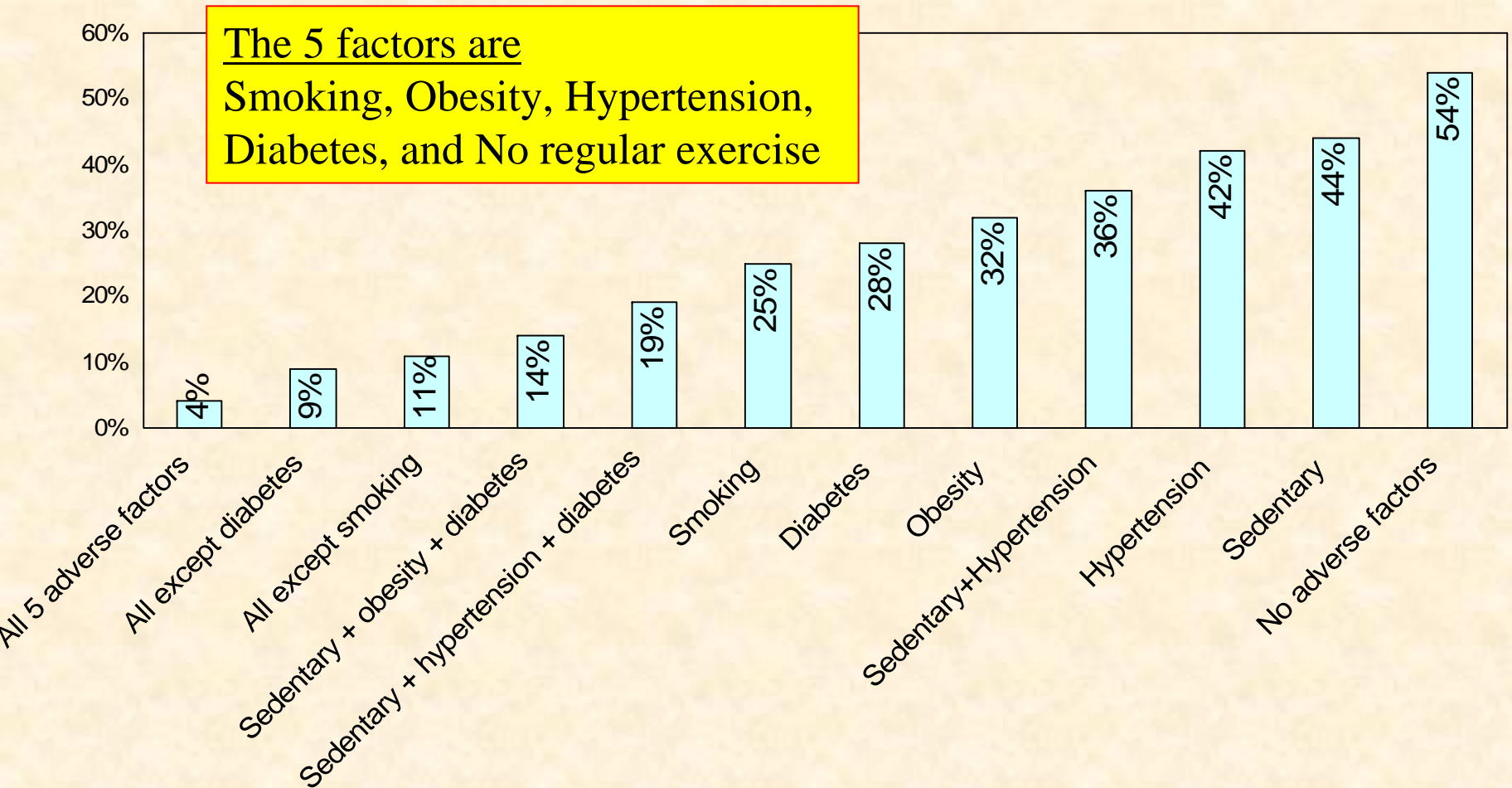
Based on today's data,

- Annuity mortality tables say that 1 in 3 women (and 1 in 5 men) currently age 65 will live to 90 or older.
- But those data are averages of people with a wide range of conditions. For example, ...





# An Age-70 Man Has a 54% Chance of Reaching 90 If He Avoids 5 Factors



# Immediate Fixed Life Annuities: Suitability

*Is This Product “Right”  
for Everyone?*



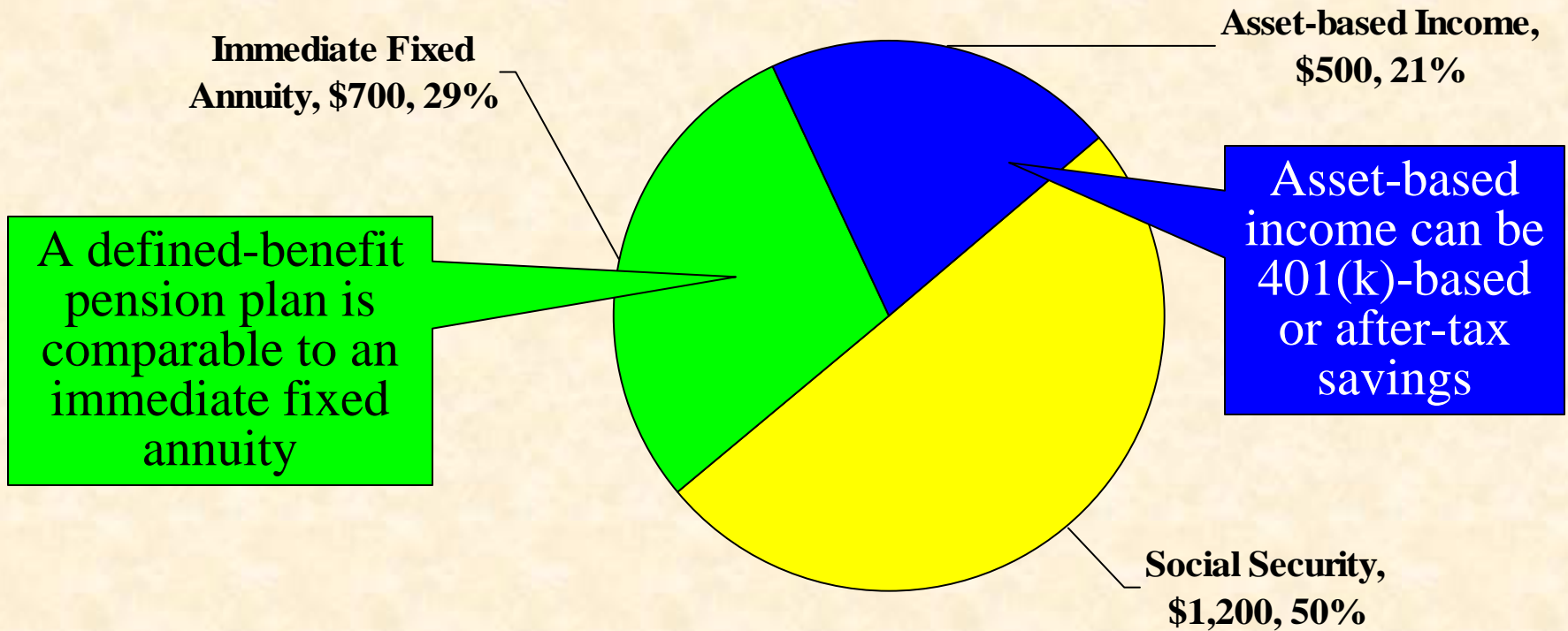


# *Basic Financial Planning Principles*

- Don't put all of your money into
  - a single type of investment
  - investments with time horizons that don't match your current or likely future circumstances
- Safeguard (against inflation and exhaustion) the part of your retirement income that pays for your basic expenses (food, shelter, medical care, clothing, transportation)

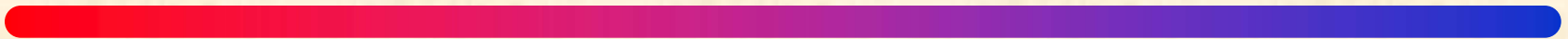


# *How an Immediate Fixed Annuity Might Fit Into a Retirement Income Composition for a Pre-retirement \$3,000 Monthly Income*



With this composition, retirement income replaces 80% of final pre-retirement income. 79% of initial retirement income is guaranteed for life. Assumes retiree also has a liquid emergency fund, ideally equal to 6-months income.

# Buying Tips





## *Buying Suggestions*

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- Buy from a financially strong company
  - One with high ratings from at least two independent rating agencies
  - Check with your state insurance regulator regarding complaints about the company's annuities
- Use an agent/financial advisor who puts your interest first



## *Buying Suggestions (cont'd)*

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- The I.I.I. recommends that before buying an annuity you have money to pay for emergency expenses (rule of thumb: 6 months of income, invested/saved in a form that won't go down) separate from the annuity
- Shop around; the immediate annuity market is competitive and continually changing

# How Secure is a Deferred or Immediate Annuity?







## *Is My Immediate Fixed Annuity Secure if the Annuity Company Becomes Financially Impaired?*

- Very few companies experience impairments
- Of those that do, many have enough liquid assets to pay all benefits
- Often the state's insurance regulator will get a healthy annuity company to take on the contracts and continue paying benefits
- If none of these approaches work, the regulator may put the company into “conservation” or “liquidation”
  - The state's Life and Health Insurance Guaranty Fund will assess life insurers in the state for money to pay benefits, up to the limits in state law; these limits are in the chart on the next slide



# *States' Guaranty Fund Benefit Coverage for Immediate Fixed Annuities*

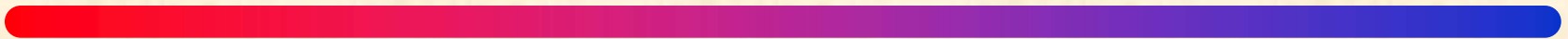
The amount guaranteed is the present value of expected future benefits.

<b>States</b>	<b>Per Individual</b>
Connecticut, New Jersey, New York, Washington	\$500,000
Alabama, Arkansas, Florida, Georgia, Idaho, Indiana, Iowa, Minnesota, New Mexico, North Carolina, Oklahoma, Pennsylvania, South Carolina, South Dakota, Wisconsin, D.C.	\$300,000
Utah	\$200,000
All other states	\$100,000

Note: These limits are for immediate annuities. In some states the limits for deferred annuities are lower—typically \$100,000.

Source: The Life & Health Insurance Guaranty Association System, "The Nation's Safety Net," 26 2008 Edition. See also Babbel and Merrill, "Rational Decumulation," May 2007, at

# **Annuities: I.I.I. and Other On-line Resources**





# *I.I.I. Web Site: Annuities*

## Basic information about annuities

- <http://www.iii.org/individuals/annuities/>

This section contains answers to questions such as

- What are the different types of annuities?
- What is the difference between a fixed and variable annuity?
- How are annuities sold?
- What are surrender fees?
- How will I receive my annuity payments?
- How often should I review my annuity portfolio?



# *I.I.I. Web Site: Annuities*

## Statistics about annuities

- <http://www.iii.org/media/facts/statsbyissue/annuities/>

This section contains statistics such as

- Fixed and variable individual annuity premiums
- Individual annuity sales by distribution channels
- Annuity sales by product type
- Net assets in variable annuities
- Top 10 Writers of New Variable Annuity Contracts
- Top 10 Writers of Index Annuities
- Top 10 Writers of Annuities Sold Through Banks



## *Other Immediate Annuities Web Sites*

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- <http://paycheckforlife.org/>
- [www.retireonyourterms.org](http://www.retireonyourterms.org)
- <http://www.irionline.org/>
- [www.irionline.org/pdfs/09AnnuityFactBook/2009AnnuityFactBook.pdf](http://www.irionline.org/pdfs/09AnnuityFactBook/2009AnnuityFactBook.pdf)
- [www.annuityshopper.com/](http://www.annuityshopper.com/)
- [www.immediateannuities.com/annuitytrends.html](http://www.immediateannuities.com/annuitytrends.html)
- [www.immediateannuities.com/annuitymuseum/](http://www.immediateannuities.com/annuitymuseum/)



# **Annuities: I.I.I. and Other On-line Resources in Spanish**



# *Online Resources in Spanish*

- <http://www.iii.org/individuals/annuities/enespanol/>
  - Content includes answers to questions and topics such as:
    - What are the different types of annuities?
    - What is the difference between a fixed and variable annuity?
    - How and where are annuities sold?
  - Articles in English that have a Spanish version are connected by a button on the horizontal tab.
- English-Spanish Insurance and Annuities terms and definitions (Limited Glossary):
  - [Definiciones básicas de anualidades](#)
- Video Podcast in Spanish on what to ask about annuities:
  - [Antes de comprar una anualidad...](#)





## *Other Online Annuities Resources in Spanish*

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- **Wiser Women.org:** *Siete decisiones financieras que pueden definir el rumbo de su vida financiera*  
[http://www.wiserwomen.org/pdf\\_files/7DecisionsSpanish.pdf](http://www.wiserwomen.org/pdf_files/7DecisionsSpanish.pdf)
  
- **National Association of Insurance Commissioners – In Spanish:**  
[http://www.naic.org/documents/consumer\\_alert\\_annuities\\_senior\\_es.htm](http://www.naic.org/documents/consumer_alert_annuities_senior_es.htm)



# *Insurance Information Institute On-Line*

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*Thank you for your time and attention.*