

Say hello to income annuities: another tool in your toolbox

By Kim O'Brien, Executive Director, CFP, MBA, NAFA

Income annuities are certainly not new to independent insurance agents or marketing organizations, but they have recently attracted increased interest nationally. A report released this week by the Middle Class Task Force indicates the Obama Administration is supportive of guaranteed insured annuities. The report states, "Promoting the availability of annuities and other forms of guaranteed lifetime income, which transform savings into guaranteed future income, reducing the risks that retirees will outlive their savings or that their retirees' living standards will be eroded by investment losses or inflation."

Fixed annuities -- whether income is deferred or taken immediately -- are among the financial tools the administration is promoting to give Americans a better shot at a more secure retirement. This endorsement increases retiree confidence in these products and helps bolster the value proposition of fixed annuities, which are mostly ignored by Wall Street broker/dealers.

Immediate income annuities accounted for slightly less than 8 percent of all fixed annuities sales in 2008 (including book value, MVA, indexed and immediate) based on reports from LIMRA International, but their appeal is increasing as Americans age and spend more time in retirement. This trend will require more income planning and use of fixed annuities.

In addition, the declining benefits of Social Security and the demise of defined benefit pensions will also require additional income sources. Lowell Aronoff, CEO of CANNEX, a company specializing in compiling and analyzing financial product data, tells us that the academic community has been citing the need for income annuities to achieve an optimal retirement income portfolio for many years, but practitioners are not bringing that message to their clients. One example is a David Babbel and Craig Merrill report that people currently in their working years will receive a much lower return on their Social Security contributions than did their parents because the rate of return on contributions was far higher for earlier beneficiaries. The Social Security Administration shows that lower income earners can expect only a 2.8 percent return on their contributions and the highest earners are projected to receive only a .4 percent return on their contributions.

The Babbel and Merrill Report states that only one new pension program of any size has been initiated in the past 15 years. The number of pension plans in the U.S.

peaked at 175,000 in 1983 -- more than 25 years ago -- and has since declined to less than 25,000. This reduction involved small, medium and even some of the largest pension programs. Meanwhile, 30 percent of the remaining programs will close within the next two years. As a result, defined contribution plans (401(k), 403(b), etc.) have increased from 17,000 to more than 650,000 plans in place today. With more and more retirement savings accumulating in these defined contribution plans, the demand for a managed, guaranteed income stream will continue to grow.

But the cry for immediate payout annuities and guaranteed income riders on fixed deferred annuities will not be heard just from retirees. The utilization of income annuities in charitable giving and generational wealth transfer strategies will continue to rise. The value of the income annuity is the assurance that the funds intended for the beneficiary remain intact or even increase in value because of the guarantees and are not lost by poor management or bad market performance. It also assures the benefactor that their gift will not be squandered or misused, but will be paid out as directed by the contract provisions or trust.

Yet another use for a fixed payout annuity is to couple it with a no-lapse guarantee life contract for individuals whose health has declined and life expectancy lessened. An underwritten income annuity will generate higher payouts because of the health status and the additional income can be used to replace an older, underperforming life policy or lengthen the guarantee of an existing no-lapse contract.

The uses of insured, guaranteed fixed annuities are abundant and the savvy agent will present products that are competitive and beneficial to their clients. A guaranteed fixed payout annuity, whether immediate or deferred, is a very useful tool in the toolbox.

Published on ProducersWEB.com (<http://www.producersweb.com>)