7 facts about annuities you should know

Fact 1: Americans are living longer amid rising healthcare costs.

The IRI Fact Book 2014 reveals a significant increase in the life expectancy of 65-year-olds over the past quarter century. In 2010, the average life expectancy for a 65-year-old male was 82.7. This compares with 79.1 years in 1980.
“While an increase of three years may not seem dramatic over a lifetime, it can have a significant impact on one’s retirement security,” the report states.

To make its point, the report cites the example of an individual with annual expenses of $50,000 in retirement. Expenses for a 65-year-old living 14 years in retirement would total $700,000. Assuming this person lives 17 years in retirement, the additional three years of expenses would bring the total to $850,000, a 21 percent rise.
The report adds that healthcare costs for the average 65-year-old will be $250,000 over a 20-year retirement and nearly $500,000 over a 30-year retirement.

Fact 2: Deferred and variable annuities accounted for most annuity sales in 2013

Annuity sales in 2013 totaled $220.9 billion, of which $209.9 billion were attributable to deferred annuities and $11.0 billion to immediate annuities. Variable annuities accounted for $142.8 billion, whereas fixed annuities hit $78.1 billion.

Assets under management in annuities reached a record-high of nearly $2.6 trillion.
“While some companies have slowed down or eliminated new annuity sales, there has been an influx of private equity firms entering the annuity market, specifically by purchasing interests in fixed-indexed companies, as well as variable annuity blocks,” the report states. “Additionally, companies are innovating with new products that are less capital-intensive, which may increase the capacity at certain companies.”

Fact 3: Sales of fixed immediate income annuities have more than doubled since 2003 and were up 20 percent in 2013 alone

The report expects sales of fixed immediate income annuities to continue to increase. Among the reasons why: Lifetime payouts remain attractive in the current low interest rate environment due to survivorship credits. And these credits will become more appealing as interest rates rise.

The report notes also that that federal government has been encouraging employer sponsors of defined contribution retirement plan, such as 401(k)s, to offer these annuities as options for retiring employees.

“Their popularity is likely to rise as the public becomes more familiar with them in this context,” the report states. The research adds that carriers are “adding liquidity and inflation-protection features to existing products, or introducing new ones with these features, to overcome advisors’ and consumers’ historic objections to the products.

Fact 4: In 2013, 72 percent of variable annuity sales were in products offering a guaranteed minimum withdrawal benefit (GMWB) or guaranteed minimum income benefit (GMIB)

The report observes that the top-selling variable annuity products are consistently sold or offered with a GMWB or GMIB option; and that about 70 percent of sales are reported in qualified plans (i.e., sales wherein tax-deferral is a function of the plan, not the product.)

Fact 5: More than one in three (36 percent) investors have an annuity within their investment portfolio.
The research observes, however, that this percentage is down from the 42 percent of investors who reported owning an annuity in 2012. The use of fixed, fixed income and variable annuities is also down from 2012.

The research adds that owners of variable annuities are equally likely to be male or female (51 percent vs. 49 percent). Indexed annuity owners are more likely to be males (58 percent vs. 42 percent), whereas fixed annuity owners are somewhat more likely to be female (53 percent vs. 47 percent).

The study notes also that, in 2013, ownership of fixed annuities is greatest among the Generation X and Y affluent populations (62 percent combined). Older generations (those born in 1956 or before) are more likely to own fixed (60 percent) and variable (57 pe

Fact 6: Familiarity with annuities and their benefits increases with wealth, as does the belief that annuities can diversity and protect assets.

The research reveals that 20 percent of investors with more than $5 million in investable assets say that they plan to purchase an annuity in the next year.

"While wealthier clients may be among the greatest annuity product advocates, they also are the group to most likely express skepticism over an insurer's trustworthiness and ability to fulfill long-term guarantees," the report states. "For these investors, an insurer's financial strength ratings and communication process of how guarantees are competitive, yet prudently hedged and priced, are of utmost importance."
rcent) annuities.

Fact 7: Nearly half of households (43 percent) cite guaranteed monthly benefits as the primary reason for purchasing an annuity.
The research indicates that this reason is especially prevalent among investors with $2 million in investable assets. Investors owning investable assets between $2 million and $5 million place the greatest importance on potential account growth (41 percent). In contrast, the wealthiest investors (those with $5 million-plus in investable assets) want to insure portions of their assets (39 percent).

Other reasons cited by the wealthiest investors include:

- To generate a guaranteed payment each month in retirement (37.6 percent)
- To provide a potential for account growth (34.9 percent);
- To receive tax-deferral on earnings in the annuity (33.4 percent); and
- To set aside assets for heirs (32.8 percent)