

# Features in Income Annuities

Immediate and Deferred Income Annuity Designs



**CANNEX**

**LIMRA<sup>®</sup>**



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## Immediate and Deferred Income Annuity Designs



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## Introduction

An income annuity is a powerful retirement income tool which can provide a guaranteed stream of payments for life. Income annuities come in two varieties: the immediate income annuity and the deferred income annuity. Immediate annuities are targeted primarily to those already in retirement and provide for regular income payments which commence immediately (within a year). A deferred income annuity is typically targeted at pre-retirees who anticipate the need for guaranteed income at some point in the future.

Carriers have added many features to the income annuity to help broaden their appeal. This report provides details on which features are currently available on both immediate and deferred income annuities.

While the academic community has always embraced income annuities as an efficient way to mitigate individual risks in retirement income, until recently, financial professional practitioners were confident in using a number of non-guaranteed strategies to provide retirement income such as the 4% systematic withdrawal plan, dividend payout funds, and CD and bond laddering. However, none of these strategies guarantee that the retirees will not outlive their assets; only an annuity can do that. One way is to purchase a deferred annuity, then choose at a later date to annuitize the contract. However this strategy is rarely used as shown by the low rates of annuitization on deferred annuities which have remained under 1% since 2004<sup>1</sup>. A more popular way to get guaranteed lifetime income is through guaranteed living benefits on deferred annuities. Guaranteed living benefits were introduced in variable annuity (VA) contracts in the early 2000s to allow the owner to receive lifetime income often without having to annuitize the contract. The two most popular living benefits are the guaranteed lifetime withdrawal benefit (GLWB) and the guaranteed minimum income benefit (GMIB). Both of these optional riders allow for the potential for growth in an up market, incentives for delaying income, and a modest lifetime payout. These riders have proven to be popular as evidenced by the \$80 billion in VA sales in 2012 where buyers elected one of these riders, almost nine out of 10 times, when offered<sup>2</sup>.

Another way to receive guaranteed income is an immediate or deferred income annuity. Compared to the living benefits, income annuities can provide for larger guaranteed payments because providing liquidity and other flexibility typically found in living benefits decreases the carrier's ability to use mortality credits to augment annuity income. In particular, the deferred income annuity (DIA) has generated much attention recently. The deferred income annuity is essentially buying a future lifetime income at today's rate. This allows the pre-retirees to determine, up-front, how much annual income she or he will receive beginning at a specific point in the future. Deferred income annuities typically allow the retirees to receive lifetime income any time between two to 40 years. In 2012, sales of deferred income annuities have exceeded \$1 billion<sup>3</sup> and more new companies have stepped into this new market. Deferred

**39** insurance companies  
in the survey account for  
**84%** of the industry  
income annuity sales in  
2012, including all of the  
top 10 companies

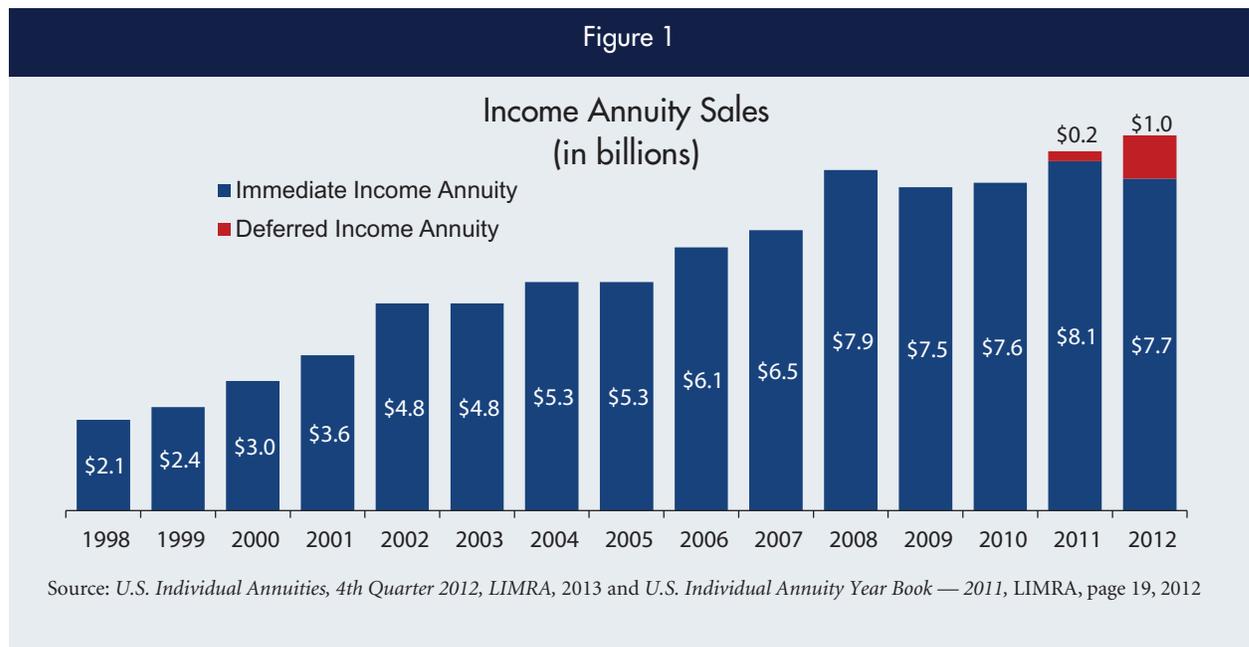
<sup>1</sup> U.S. Individual Annuity Year Book — 2011, LIMRA, page 19, 2012

<sup>2</sup> Glimpse: Variable Annuity Guaranteed Living Benefit (GLB) Election Tracking Survey, 4th Quarter 2012, LIMRA, page 1, 2013

income annuities can be attractively positioned to younger investors with a long deferral period and higher payout than annuities with GLBs. It may also attract a substantial qualified or rollover savings from its target market segments, the Baby Boomers.

But immediate and deferred income annuities sales are modest, totaling \$8.3 billion in 2011 and \$8.7 billion in 2012, constituting only 4 to 5 percent of total annual annuity sales (Figure 1). While continuing low long term interest rates have reduced income annuity rates, the interest rates on all guaranteed products have also declined. Income annuities provide more efficient use of mortality credits, acting as a third source income (beyond principal and income), than any other product. This has resulted in the product gaining share of mind among advisors as part of a retirement income solution for their clients. For 2013 and beyond, LIMRA expects to see continued success for immediate income annuities, and estimates sales to reach \$10 billion by 2014. This milestone is within reach especially as a few large insurance companies keep their focus on the marketplace.

This 2012 Income Annuity Features Study builds on 2007 CANNEX study<sup>4</sup> on income annuity features, based on responses from 50 insurance companies, and, where applicable, we have identified major changes in the income annuity features in 2012 compared to 2007.



<sup>3</sup> U.S. Individual Annuities, 4th Quarter 2012, LIMRA, page 2, 2013

<sup>4</sup> CANNEX 2007 SPIA Features Survey, CANNEX, October 2007

## Survey Results at a Glance

	Number of Companies
Participating in the survey	39
Offer Immediate Income Annuities	39
Offer Deferred Income Annuities	7
<b>Immediate Income Annuities</b>	
Offer Liquidity Features	22
Cashable during Guarantee Period	17
Cashable Life Contingent Payments	2
Cashable under specified circumstances	2
Accelerated Payments	4
Liquidity Other	4
Offer Income Flexibility	25
COLA fixed	22
CPI-U	4
Changing needs	2
Impaired Risk	3
Offer Death Benefits	31
Installment Refund	26
Cash Refund	22
ROP Death Benefit	13
Proportional Death Benefit	4
Offering Additional Features	33
Rate protection	33
Financial Program Integration	5
Income Annuity Valuation	7
STP	2
<b>Deferred Income Annuities</b>	
Offer Liquidity Features	5
Cashable during guarantee period	1
Accelerated Payments	3
Other	1
Offer Income Flexibility	7
COLA fixed	5
Change Payout date	6
Impaired Risk	1
Offer Death Benefits	7
Before Income Commencement Date	7
After Income Commencement Date	5

## Immediate Annuities

### Liquidity

One of the major complaints against the income annuity product is its lack of liquidity — it's often thought that clients have no access to an unscheduled lump sum in case of need.

However, many companies have made changes to product designs to provide liquidity for emergencies and other unforeseen events. In fact, some type of liquidity option is offered by 22 of the 39 companies in this survey. These liquidity features typically take one of three forms: partial or full access to the guaranteed portion of the payments, partial or full access to the life contingent payments, or access to several months of payments in advance.

**Cashable During Guaranteed Period:** The most popular liquidity feature involves giving access to the guaranteed payments during the guarantee period. This feature allows annuitants to choose to receive all or a portion of the commuted value of the remaining guaranteed payments as a lump sum. This feature applies to period certain only and life with period-certain contracts where payments are guaranteed at least for a fixed period of time. The commuted value of these guaranteed payments can often be fully withdrawn and in most cases the contract is not surrendered (life contingent payments re-start as scheduled), while on other contracts only a portion of the guaranteed payments can be commuted.

- Currently there are 17 companies that offer some lump sum access to the guaranteed payments, including nine of the top ten companies based on 2012 income annuity sales. Of these 17 companies, 10 allow commutation of all the guaranteed payments. The other seven companies allow for a portion of the guaranteed payments to be received in a lump sum.

**22** companies (out of **39**) in the study offer liquidity feature. It can range from fully surrendering the contract, partially surrendering or accelerating future payment. Nine of the top 10 companies offer at least one type of liquidity features.

Table 1

### Income Annuity Liquidity Features

	Cashable — During Guaranteed Period	Cashable — Life Contingent Payments	Cashable — Special Circumstances	Cashable — Accelerated Payments
Currently offer this feature	17	2	1	4
Currently offer but only as a special quote	0	0	1	0
Planning to introduce within six months	0	0	0	0
Planning to introduce in more than six months but less than two years	0	0	0	0
Planning to introduce but do not have a target date	2	1	1	0
NO plans to offer this feature	20	36	36	35

- Finally for those companies that offer commutation of guaranteed payments, most (15 of 17) will continue to make the life contingent payments as scheduled.

**Cashable Life Contingent Payments:** Some companies do offer access to a commuted value of the lifetime payments as well. Cashable life contingent payments are applied on life-only or life with period-certain contracts where annuitants may choose to receive a portion of the commuted value as a lump sum without surrendering the contract. There are currently two companies that allow for the policyholder to access a portion of their lifetime payments. These companies restrict the amount of liquidity to 20% and 30% of the remaining life payments, respectively.

**Cashable Under Special Circumstances:** Two of the companies offer partial liquidity of only under special defined circumstances such as financial hardships like on proof of foreclosure, critical illness, funeral expenses, and unpaid medical bills. Both of these companies will consider commutation of life contingent payments in their calculations.

**Accelerated Payments:** One liquidity feature that has been adopted by a few more companies in recent years is the accelerated payment option. Accelerated payments allow owners to receive a number of payments in advance of the normal scheduled date. In a survey done by CANNEX in 2007 (50 insurance companies participated), it was found that just one company offered this feature. Today there are four companies that offer a form of accelerated payments.

- The amount of monthly payments that can be accelerated range from three to 12 months. Companies limit the amount of times that the accelerated payments can be elected by the owner. One company allows for this election one time per the life of the policy, while two of the companies allow an owner to elect it twice. The remaining company will allow for accelerated payments up to four times but only under special circumstances.

**Other Liquidity Features:** Four companies offer other types of liquidity. One includes a partial liquidity feature on life or lifetime income for two that is available for first 10 years. The other three offer access to various forms of a return of premium where adjustments are made for withdrawals and surrender charges and other restrictions may apply.

## Income Flexibility

One of the key features of an income annuity is that in exchange for a lump sum, investors receive regular, fixed income payments typically for the rest of their life, or in the case of a couple, until the second dies. This addresses longevity — one of the key risks in post retirement income planning. Another key risk is inflation and, as a result, some buyers are looking to have their income rise with the cost of living. To address this need many companies offer various ways to change the income payment amount for the future.

*All of the top ten companies offer their clients a Cost of Living Adjustment option.*

**Cost-of-Living Adjustment:** The most popular of feature that is available on income annuities is the Cost-of-Living Adjustment option (or COLA). This feature provides annuitants income payments that increase over time by a scheduled percentage (e.g. by 3% every year). Currently there are 22 companies that offer a COLA on their immediate income annuity, including all of the top ten companies based on 2012 sales.

- The range of the COLA varies from company to company. The majority (10 out of 22) allow an annuitant to select a COLA up to a 5%. Three companies permit up to a 3% COLA, while three companies allow up to 4%. Finally, there are six companies that allow a COLA of 6% or more.
- Four companies differentiate COLA allowances in qualified and non-qualified contracts. Three companies do not offer a COLA on qualified accounts, while one offers but with a more limited range.
- No carriers in the survey differentiate the range of COLA offered based upon contract types (life vs. period-certain contracts).

**CPI-U Indexing:** While this is not yet a popular feature, income annuities with CPI-U indexing are one of the few products guaranteed to keep pace with inflation and the only product that provides this guarantee for the rest of the client(s) life. This guarantee makes the product the single best hedge against retired clients' core need to fund their essential expenses for the rest of their lives — a core tenet in today's retirement income planning. Four companies currently offer income payments that increase with inflation, which is calculated based upon changes to the Consumer Price Index for All Urban Consumers (CPI-U), published by the Bureau of Labor Statistics. Three of these companies keep the income payments level if the CPI-U change is negative. The other company can decrease payments, but not below a minimum threshold.

- As far as upside potential, one company has a yearly cap of 15%, one has a 20% cap, and two companies exercise no cap. Additionally there are two companies that have indicated they plan to offer CPI-U linked payments at some future date.

Table 2

### Income Annuity Income Flexibility Features

	COLA Adjustment	CPI-U Indexing	Changing Needs
Currently offer this feature	22	4	2
Currently offer but only as a special quote	0	0	0
Planning to introduce within six months	0	0	1
Planning to introduce in more than six months but less than two years	0	1	0
Planning to introduce but do not have a target date	0	1	1
NO plans to offer this feature.	17	33	35

**Changing Needs:** Several companies have recognized a need for a policyholder who may like to change the income payments over time. With this feature chosen at the time of purchase, the annuitant can vary the income over time. For example, an owner may choose to receive \$500 as income per month for five years, and then may choose increased income of \$750 a month for life. Currently two companies allow for such flexibility. There are two other companies that are planning on introducing this feature.

**Market Timing:** One of the concerns clients often have in buying an income annuity is that interest rates will rise after they are purchased, and this would result in lower payments than they would receive if they waited. One company addresses this by providing a rider that allows the annuitants to re-price their income annuity's remaining payments in the event of a poorly timed purchase that's fully defined (e.g., if the 10-year treasury notes increase by more than 2% on the fifth anniversary of the contract). Another company is planning to introduce this in the distant future.

**Temporary Life:** Three companies provide this feature as a way to bridge an income gap in the least expensive way possible. Temporary Life annuities pay until the earlier of the annuitant(s) death or a fixed period. Often these annuities are used by advisors because it is the least expensive way to bridge an income gap while waiting for social security (allowing the client to delay Social Security payments) or to fund a limited pay life insurance policy.

**Impaired Risk:** Impaired risk income annuities offer enhanced income to policyholders with below average life expectancy. Currently three companies offer this option. Two of the companies use human underwriting, and the other one is automatic, based upon not being able to perform two of the six activities of daily living.

**Other Flexible Payments Features:** Other notable flexible payment features include a periodic cost-of-living (COLA) increase feature (less frequently than annually).

## Death Benefits

While all carriers offer the simplest form of death benefit on their life annuity — a certain period, which specifies that if annuitants die, payments will continue to their estate for a specified number of years. For the purposes of this report, we're only reporting non-universal options. A death benefit payable in an income annuity can offer an annuitant(s) or his/her beneficiaries' peace of mind in case of an early death of the annuitant(s). Income annuity death benefits are chosen by selecting the desired payout option or type of guarantee at issue. Most companies (31 out of 39) offer at least one payout option which provides additional money upon death of the annuitant(s). Many of these companies make several of these options available to prospective buyers have a choice, including eight of the top 10 companies.

**Installment Refund:** The death benefit feature that is included in most product designs (26 out of 39) is the Installment Refund option, including 7 out of the top 10 companies based on 2012 sales. The Installment Refund option is the least expensive way to guarantee that the annuitant never loses money with the purchase of an income annuity. It provides for continued income payments, in the event of death, until the sum of income payments received equal the initial amount paid, on a scheduled installment basis.

**26** out of thirty-nine companies offer the *Installment Refund* death benefit.

Table 3

Death Benefit Features in Income Annuities

	Death Benefit — Installment Refund	Death Benefit — Cash Refund	Death Benefit — Return of Premium	Death Benefit — Based on Percentage of Initial Premium
Currently offer this feature	26	22	12	4
Currently offer but only as a special quote	0	0	1	0
Planning to introduce within six months	0	0	0	0
Planning to introduce in more than six months but less than two years	1	0	0	0
Planning to introduce but do not have a target date	1	2	0	1
NO plans to offer this feature.	11	15	26	34

**Cash Refund:** Almost as common as the Installment Refund is the Cash Refund feature (22 out of 38). The cash refund feature also guarantees that the annuitant will never lose money when purchasing an income annuity. It allows that if the annuitant(s) die before the total income payments equal the annuity premium — the beneficiary will be paid the difference in a lump sum. This feature is available on all of the top 5 companies based on 2012 sales. This feature pays an amount, in the event of death, equal to the difference between initial premium and all income payments received in one lump sum.

**Return of Premium:** The Return of Premium death benefit is offered on 13 products, including 4 of the top 5 companies based on 2012 sales. A Return of Premium death benefit pays the premium, sometimes with interest, if the annuitant dies before the payments begin.

**Percentage of Initial Premium:** Four companies have a feature where a death benefit will be paid based on a percentage of the initial premium. This death benefit is determined at the time of purchase is similar to life insurance for a portion of the premium. The Percent of Initial Premium death benefit offers beneficiaries a death benefit totaling a certain percentage, for example, 25 percent or 50 percent of the original premium.

**Product Integration, Sales, and Support**

Designing income annuities to fit the needs of today’s financial advisors and annuitants has been challenging. Companies have been busy developing aligning income annuities with other investment products, such as Straight Through Processing, financial program integration, income annuity valuation techniques, and the like. The following details progress companies have been making.

**Financial Program Integration:** There has been some interest in the integration of an income annuity into a broader financial package or program such as income annuity inside of an IRA or 401(k) plan. Currently five companies offer some sort of financial program Integration.

- Custody of an individual income annuity within a custodial account is allowed at two companies.

- Bundling of an individual income annuity with another product as part of a package or broader product portfolio solution is permissible at one company.
- Finally, one company provides individual income annuity information on periodic client-household statements with other products and investments.

**Income Annuity Valuations:** Companies were asked if they calculate and transmit a valuation on an in-force income annuity contract to a distributor (including any captive distribution). This would be important if the distributor chose to include income annuities in the advisor’s AUM credits or on a client statement. Seven companies indicated they did. All of the companies calculated at least two forms of valuation:

- Five companies reported the total or initial premium, four companies calculated Income Value/Fair Market Value, three companies calculated Actuarial Present Value, two companies calculated Statutory Reserve, two companies reported “other”, and one company calculated the commuted value.
- Three companies update the values on a daily basis. Two companies calculate the values on a monthly basis, and one company calculates the value on an annual basis.

**Straight Through Processing:** Straight Through Processing (STP) is becoming very important if the companies want to make it easier to do business for the distribution firms and advisors in today’s world; however, this process has not yet become commonplace on income annuities. STP permits connectivity among insurers, distributors and vendors, and facilitates paperless transactions of new business from the point of sale through issuance of the annuity. When this survey was completed, only two companies reported support for STP on income annuities. Both sell exclusively through career agents and do not support outside vendors. However, things are slowly changing as 16 companies are planning on offering STP, with five of them hoping to support STP within the next two years. With an initiative that is currently underway, it is likely that many companies will support STP sooner rather than what was anticipated in this survey.

Table 4

	Other Features		
	Financial Program Integration	Income Annuity Valuations	Straight Thru Processing
Currently offer this feature	4	8	2
Planning to introduce within six months	0	NA	0
Planning to introduce in more than six months but less than two years	1	NA	4
Planning to introduce but do not have a target date	0	NA	11
NO plans to offer this feature	32	NA	20

Table 5

## Immediate Income Annuity Features

COMPANY NAME	PRODUCT NAME	LIQUIDITY FEATURES
Allstate Financial	IncomeReady	<p><b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments</p> <p><b>Liquidity Other.</b> Modified Cash Refund provides for cash refund of premium not received through payments (after 36 months waiting period)</p> <p><b>Accelerated Payments.</b> Up to 12 months, two times during life of policy</p>
American Equity Investment Life	SPIA-1	
Ameritas Life	Compass SPIA	
Amica Life Insurance Company	SPIA	
Bankers Life and Casualty Company	SPIA	
Cincinnati Life	SPIA	
Cuna Mutual Group	Members Single Premium Immediate Annuity	
EMC National Life Company	Immediate Annuity	
EquiTrust Life Insurance Company	Confidence Income	
Federated Life Insurance	SPIA	
Genworth Financial	Secure Living Income Provider	<p><b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments</p> <p><b>Accelerated Payments.</b> Up to 12 months worth (3 months at a time) in event of a life changing event</p>
Guaranty Income Life Insurance Company	GILICO Immediate Payout Annuity	
Guardian Life	The Guardian Guaranteed Income Annuity II	<b>Accelerated Payments.</b> Request advance of up to five months of income, once during life of policy
Hartford Life	The Hartford Income Annuity	<b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments
Indiana Farm Bureau Insurance Company		
ING	ING USA Single Premium Immediate Annuity	

## Immediate Income Annuity Features

DEATH BENEFIT	INCOME FLEXIBILITY	OTHER
Cash Refund	COLA. Range of 2% to 5%	Multiple payees
Installment Refund		
		Multiple payee
Cash Refund	COLA. Customer driven.	
Installment Refund		
Cash Refund	CPI-U indexing. 20% upside cap, payments will not decrease if negative change in CPI-U.	Multiple payees
Installment Refund		
<b>Return of Premium.</b> Prior to income start date		
Cash Refund		
Installment Refund		Multiple payees
Cash Refund	COLA. Range of 1% to 6%	Multiple payees
Installment Refund		<b>Restrictions endorsement.</b> Irrevocable election of payee and benefits on NQ
<b>Return of Premium.</b> Prior to income start date	Impaired Risk	
Cash Refund	COLA. Range of 1% to 5%	Multiple payees
Installment Refund		
Cash Refund	COLA. Range of 1% to 6% in 0.5% increments	
Installment Refund		
Percentage of Initial Premium Death Benefit		
Installment Refund		Multiple payees
Cash Refund	COLA. Range of 1% to 3%	
Installment Refund		

## Immediate Income Annuity Features

COMPANY NAME	PRODUCT NAME	LIQUIDITY FEATURES
Kansas City Life Insurance	SPIA	
Knights of Columbus	SPIA	
Lincoln Financial	Smart Income Inflation Advantage	<b>Liquidity Other.</b> Access to a reserve value equal to premium paid plus earnings less the withdrawals, surrender charges may apply
MassMutual	MassMutual RetireEase	<b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments
MetLife	MetLife Income Annuity	<b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments <b>Liquidity Other.</b> Partial liquidity feature on a Life or Lifetime income for two only that gives part liquidity for 10 years. Payments after 10 years are untouched.
Midland National Life	Direct Income	
Modern Woodmen of America	SPIA	
Nationwide Life Insurance	INCOME Promise Select	<b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments
New York Life	Guaranteed Lifetime Income Annuity	<b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments <b>Cashable Lifetime Payments.</b> Up to 30% commuted value of life payments at the 5th, 10th, and 15th anniversary of first payment and can be exercised only once <b>Accelerated Payments.</b> Request an advance of up to six months of income twice during life of policy, nonqualified only
Northwestern Mutual	Select Immediate Income Annuity	<b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments
Pacific Life	Pacific Income Provider	<b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments
Penn Mutual	SPIA	
Phoenix Life	Phoenix Edge SPIA	

## Immediate Income Annuity Features

DEATH BENEFIT	INCOME FLEXIBILITY	OTHER
Installment refund		
Cash Refund	<b>CPI-U Indexing.</b> No upside cap, adjustments can be positive or negative but never below guaranteed minimum scheduled payment	
Cash Refund	<b>COLA.</b> Ranges of 1% to 4%	Multiple payees
Installment Refund		<b>Other.</b> Ability to adjust the period certain option
Cash Refund	<b>COLA.</b> Ranges of 2% to 5%	Multiple payees
<b>Return of Premium.</b> Prior to income start date		
Installment Refund		
Cash Refund		
Installment Refund		
<b>Return of Premium.</b> Prior to income start date		
Cash Refund	<b>COLA.</b> Ranges of 1% to 5%	Multiple payees
Return of Premium		
Cash Refund	<b>COLA.</b> Ranges of 1% to 10%	Multiple payees
Installment Refund	<b>Changing Needs.</b> Increase up to five times or decrease by half the initial payment, amount and date must be selected at issue	
<b>Return of Premium.</b> Prior to income start date		
Percentage of Initial Premium Death Benefit	<b>Income Flexibility Other.</b> Income enhancement if rates rise	
Installment Refund	<b>COLA.</b> Ranges of 0% to 6%	
Cash Refund	<b>Changing Needs.</b> Increase by up to three times or decrease by half of initial payment, amount and date must be selected at issue	
<b>Return of Premium.</b> Prior to income start date	<b>COLA.</b> Ranges of 2% to 4%	
Installment Refund	<b>COLA.</b> Ranges of 3% to 5%, nonqualified only	
Cash Refund	<b>COLA.</b> Ranges of 1% to 5%	Multiple payees
Installment Refund		

## Immediate Income Annuity Features

<b>COMPANY NAME</b>	<b>PRODUCT NAME</b>	<b>LIQUIDITY FEATURES</b>
Principal Financial Group	Principal Income Annuity	<b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments
Prudential	Prudential Immediate Annuity	<b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments
RiverSource Life	Secure Provider	<b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments
Securian Financial	Income Today!	<b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments
Standard Insurance	Tailored Income Annuity (TIA)	<b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments  <b>Cashable Lifetime Payments.</b> After second year can commute 10% of life based payments per year and up to 20% over life of contract
Symetra Life	Advantage Income	<b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments
Transamerica	Immediate Income Builder	<b>Liquidity Other.</b> Life with emergency cash option offers a non-contingent return of premium adjusted for withdrawals, surrender charge may apply
Thrivent Financial for Lutherans	SPIA	<b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments
USAA	Guaranteed Retirement Income Plan	<b>Liquidity Special Circumstances.</b> One-time withdrawal up to 30% in event of an emergency
Western & Southern	Income Source	<b>Cashable Guaranteed Payments.</b> Access to commuted value of guaranteed payments

## Immediate Income Annuity Features

DEATH BENEFIT	INCOME FLEXIBILITY	OTHER
Cash Refund	COLA. Ranges of 1% to 5%	
Installment Refund	CPI-U Indexing Income Flexibility Other. Periodic increase feature (increases payment less frequently than an annual increase)	
Cash Refund		
Installment Refund		
Installment Refund.	COLA. Ranges of 2% to 4%	
Cash Refund		
Installment Refund		
Installment Refund	COLA. Ranges of 1% to 5%	
Percentage of Initial Premium Death Benefit		
<b>Return of Premium.</b> Prior to income start date		
Cash Refund	COLA. Ranges of 0% to 6.5%	Multiple Payees
Installment Refund	Impaired Risk. Human underwriting	
<b>Return of Premium.</b> Prior to income start date		
Percentage of Initial Premium Death Benefit		
Installment Refund	COLA. Ranges of 1% to 3%	Multiple Payees
Cash Refund		
<b>Return of Premium.</b> Prior to income start date		
<b>Return of Premium.</b> Prior to income start date, available within 90 days of issue	COLA. Ranges of 1% to 5% CPI-U Indexing. Fifteen percent upside cap, payments will not decrease if negative change in CPI-U	Straight Through Processing Multiple Payees
Installment Refund	COLA. Ranges of 1% to 3%	Straight Through Processing
Cash Refund		
Return of Premium		
Cash Refund	COLA. Ranges of 0% to 5%	Multiple Payees
Installment Refund		

**Rate Protection:** Companies were asked if they offer any rate protection on immediate income annuities. Rate protection is defined as allowance for honoring the payout rate for a certain number of days between the time when the application is signed and in good order to when the premium is actually received.

- Currently 11 companies offer rate protection longer than 14 days. Another 11 companies offer rate protection between eight to 14 days. Eleven companies offer rate protection of one to seven days and six companies offer no rate protection. Among the top 10 companies for sales in 2012, most (six out of 10) currently offer between eight to 14 days.

**Flexible Pricing:** Flexible pricing allows the companies to differ the payout rates based on factors such as distribution channels, group demographics, sources of funds, state, or sizes of premium.

- Three of the 38 companies' responses offer different rates for different channels.
- Three of the 37 carriers' responses offer different payout amounts depending on the source of funds. One carrier differentiates between qualified and nonqualified funds; another differentiates Tax Sheltered Annuity (TSA) funds, and the third differentiates employer sponsored qualified plans.
- Twenty-four of 37 carriers' responses offer different payout rates to clients in different states. In some cases this was due to Unisex mortality rates; in some other states the rates are different because of premium taxes.
- Twelve of 38 carriers' responses provide different payout rates for different ticket sizes. Nine of these companies that vary the payouts have banded rates, with \$100,000 being the most common breakpoint. The other three companies that have different payout rates do so by spreading out the fixed costs throughout the policy before calculating the payment.
- Four companies offer group income annuity pricing. Two of these companies make their pricing dependent on group demographics.

### Other Features

- No participant company in the study offers a hybrid income annuity product that combines long-term care or life insurance.
- One insurance company offers a multi-year fixed deferred annuity in combination with an income annuity.
- Three companies integrate the income annuity with Medicaid benefits, although no carriers actively promote this feature.
- No carrier provides the ability to fund multiple premium payments, each priced at different current rates, into a single fixed income annuity contract. One company, however, plans to introduce this feature in six months.

## Deferred Income Annuities

The deferred income annuity (DIAs) is sometimes referred to as a longevity, deferred payout, or advanced life-delayed annuity. This type of annuity pays income to the policyholder starting at least 13 months from the policy date. Whereas the immediate income annuity is only appropriate for those looking for income starting immediately, the deferred income annuity would appeal to someone in need of income later.

Interest in DIAs has grown in recent years. The survey collected information on seven of the DIAs currently available. Additionally there are eight companies that have indicated they plan on introducing a DIA. Two out of the eight plan on introducing one within the next six months.

- **Multiple Contributions:** Current designs of deferred income annuities differ from immediate income annuities in several ways. One key difference with a DIA is the ability to make multiple contributions before the income start date. Most (four out of seven) of the current products allow you to make multiple contributions into the contract.
- **Income Commencement Date Changes:** Another difference between the immediate and the deferred income annuity is the ability to choose a wider range of income commencement dates. With the DIA the income can be deferred for as short as 13 months to as long as 45 years. Most (six out of seven) of the current products allow you to change that commencement date. Five of those six companies allow the date to be deferred up to five years after the original payout date. The other company allows clients that choose deferred income annuities to wait until payments start before specifying the income commencement date or the type of annuity (Certain, Single or Joint Life).
- **Liquidity Features:** Many of the immediate income annuity liquidity features are also available in a DIA. In fact most (five out of seven) DIAs have at least one liquidity feature. Three of the six companies offer the accelerated payment option. Two of the six offer some access to a commuted value of the guaranteed payments. One company offers 100% liquidity (life included) within 60 days of starting income payments.
- **Income Flexibility:** Most (five out of seven) of the DIAs have a cost-of-living adjustment option. No carriers differentiate the range of COLA rates offered based upon contract types such as life only or period-certain contracts. One insurance company offers a lower maximum COLA rate for deferred income annuities funded by qualified funds. Currently there are no DIA companies that link the payments to the CPI-U. One out of seven companies offers an impaired risk DIA. Another company offers the potential for dividends that can be taken in cash or used to purchase additional guaranteed income.

*Interest in deferred income annuities has grown in recent years. This survey examines seven companies that offer a deferred income annuity. Additionally, eight companies plan on introducing one.*

Table 6  
Deferred Income Annuity Features

COMPANY NAME	PRODUCT NAME	LIQUIDITY FEATURES
Guardian Life	SecureFuture Income Annuity	<b>Accelerated Payments.</b> Up to five months, one time per life of policy
Hartford Life	The Hartford Income Annuity	<b>Cashable Guaranteed Payments.</b> Access to commuted value of remaining guaranteed payments
MassMutual	MassMutual RetireEase Choice	<b>Accelerated Payments.</b> Up to three or six months, five times per life of policy
MetLife	MetLife Longevity Guarantee	<b>Liquidity Other.</b> Access to commuted value of payments (life included) within 60 days of starting income payments
New York Life	Guaranteed Future Income Annuity II	<b>Accelerated Payments.</b> Up to six months, two times per life of policy
Northwestern Mutual	Select Portfolio Deferred Income Annuity	
Symetra Life	Freedom Income	

## Deferred Income Annuity Features

DEATH BENEFIT	INCOME FLEXIBILITY	OTHER
<p><b>Return of Premium.</b> Prior to income start date</p> <p>Cash Refund</p> <p>Installment Refund</p>	<p><b>COLA.</b> Range of 1% to 5%</p> <p><b>Payout Date.</b> Up to 40 years out</p> <p><b>Change Income Payout Date.</b> Accelerate date up to five years before or delay up to five years after</p>	<p>Flexible premiums</p> <p>Multiple payees</p>
<p><b>Percentage of Initial Premium.</b> Prior and after start date</p> <p>Cash Refund</p> <p>Installment Refund</p>	<p><b>COLA.</b> Ranges of 1% to 6% in 0.5% increments</p> <p><b>Payout Date.</b> Up to 30 years out</p> <p><b>Change Income Payout Date.</b> Accelerate date to 13 months from last contribution or delay up to five years</p>	<p>Single Premium</p>
<p><b>Return of Premium.</b> Prior to income start date</p> <p>Cash Refund</p> <p>Installment Refund</p>	<p><b>COLA.</b> Ranges of 1% to 4%</p> <p><b>Payout Date.</b> Up to 30 years out</p> <p><b>Change Income Payout Date.</b> Accelerate date up to five years before or delay up to five years after</p>	<p>Flexible Premiums</p> <p>Multiple Payees</p>
<p><b>Return of Premium.</b> Prior to income start date, 3% annual compound</p>	<p><b>Payout Date.</b> Up to 35 years out</p> <p><b>Change Income Payout Date.</b> At any time</p>	<p>Flexible Premiums</p> <p>Multiple Payees</p> <p><b>Other.</b> Does not require owner to select income type or commencement date until they want to start payments</p>
<p><b>Return of Premium.</b> Prior to income start date</p> <p>Cash Refund</p> <p>Installment Refund</p>	<p><b>COLA.</b> Ranges of 1% to 3%</p> <p><b>Payout Date.</b> Up to 40 years out</p> <p><b>Change Income Payout Date.</b> Accelerate date to 13 months from last contribution or delay up to 5 years</p>	<p>Flexible Premiums</p> <p>Multiple Payees</p>
<p><b>Return of Premium.</b> Prior to income start date</p>	<p><b>Change Income Payout Date.</b> Accelerate date up to five years before or delay up to 5 years after</p> <p><b>Other</b> dividends can be taken in cash or used to purchase additional guaranteed income</p>	<p>Single Premium</p> <p>Dividends</p>
<p><b>Return of Premium.</b> Prior to income start date</p> <p>Cash Refund</p> <p>Installment Refund</p>	<p><b>COLA.</b> Ranges of 0% to 6.5%</p> <p><b>Payout Date.</b> Up to 45 years out</p> <p>Impaired Risk</p>	<p>Multiple Payees</p> <p>Single Premium</p>

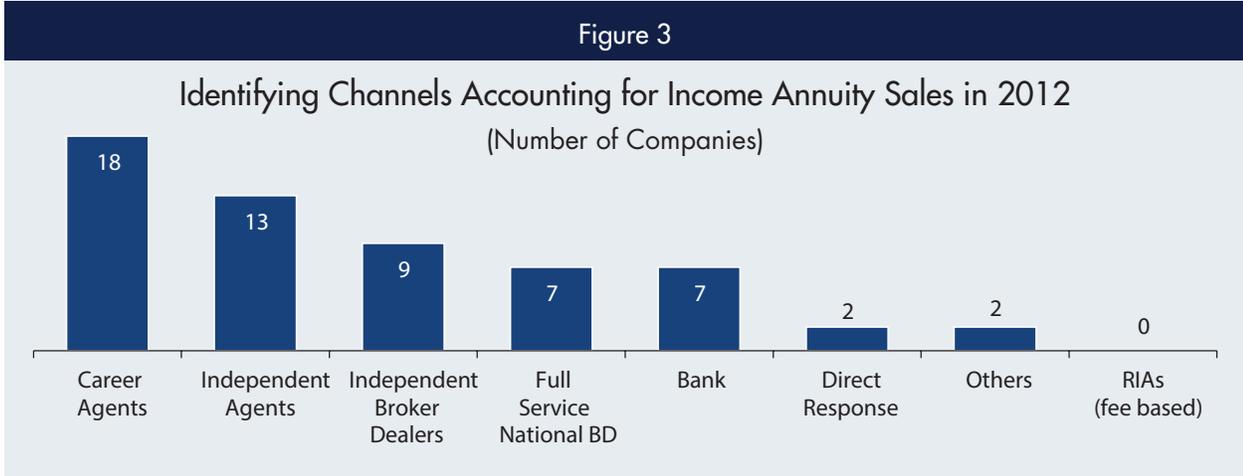
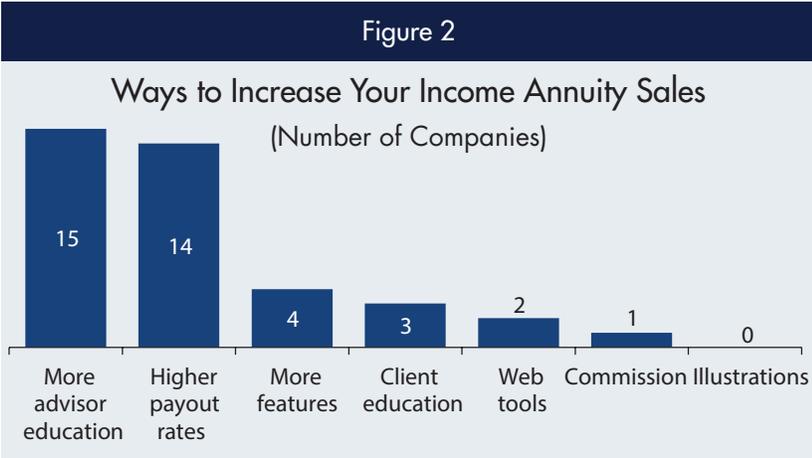
- **Death Benefit Before Payouts Begins:** With the potential for a long deferral period, the availability of a death benefit that pays out, if the annuitant dies before payments start, is important to consider. Currently four of the seven companies offer a return of premium (ROP) death benefit in the event the annuitant dies before the income payments have commenced. Another company offers a ROP compounded at 3% annually. One company offers a death benefit equal to a specified percentage (25%, 50%, or 75%) of the initial premium.
- **Death Benefit After Payouts Begins:** After the income commences the available death benefits are similar to immediate annuities. Five of the seven DIA companies offer both cash refund and installment refund options.
- **Minimum and Maximum age:** Four carriers that currently offer deferred income annuity have no minimum age to receive income. One company requires the minimum age to begin income at age 23, while another one must begin at 50. Four insurance companies indicated the maximum age to receive income was to age 85, two to age 90, and one goes as high as 94.
- **Straight Through Processing:** There are no carriers that currently support STP for deferred income annuities. Three carriers plan to support this feature within the next three years.

## Best Practices

The survey participants were asked three questions relating to best practices. The first question looked at how to grow sales profitably in the income annuity space. The second and third questions were concerned with the distribution channel as to where their sales are now and where they anticipate growth.

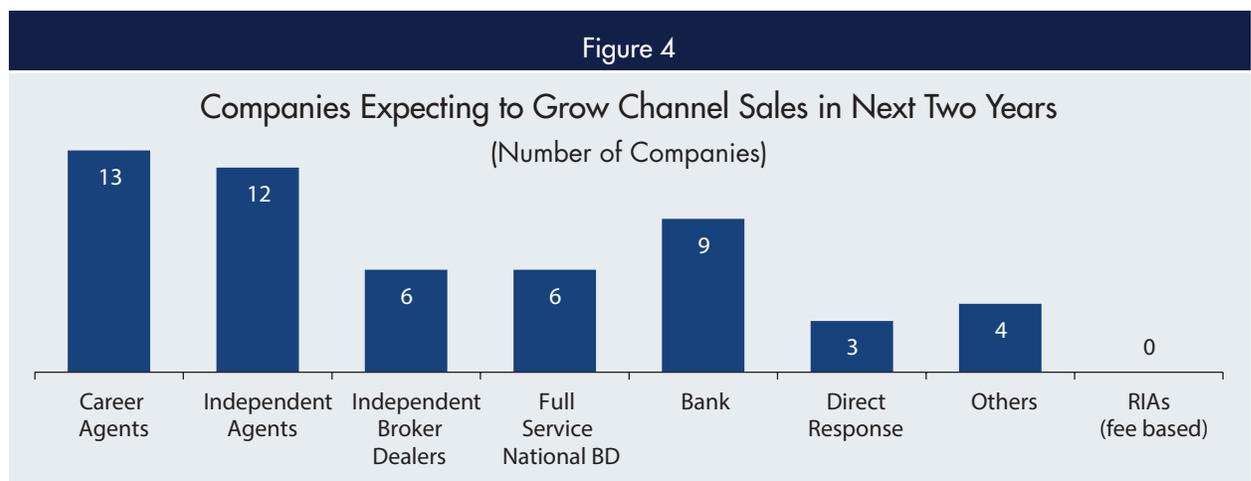
There is a disconnect between retirement income research, which almost universally indicates that income annuities should be a core product for almost all retirees, and the low sales of the product. As a result, it is not surprising to see that 15 companies think more advisor education is the key to increasing income annuity sales (Figure 2). Certainly there has been more emphasis lately into how income annuities fit into an overall retirement plan. Higher guaranteed payout rates than any other product may be seen as a way to grow sales. However, what makes income annuity sales challenging is the client reluctance to lock in today’s historically low interest rates; disincentives to sales due to advisor loss of AUM credits; and client behavioral challenges (e.g., clients avoid irreversible financial decisions that they don’t fully understand and are averse to the loss they feel when giving up control of assets, among many other issues).

Most companies are organized around career agents and independent agent channels to receive at least 20% of their income annuity sales (Figure 3). Penetration in other third-party channels like Independent Broker Dealers, Full Service National B-D, and Bank channels are less frequent and remain confined with



some of the largest players in the income annuity market. However, LIMRA sales benchmark studies show that Bank and the Full Service National B-D channels are growing their market shares after the market crisis in 2008 to 2009.

However, when asked which channels companies foresee will grow their sales by at least 10% in the next two years, companies did not foresee their sales growth beyond the channels they are currently operating (Figure 4). For example, companies currently strong in Full Service National Broker dealer channels see more growth in these particular channels. The only slight exception is the Bank channel where a few companies that are not currently strong may want to expand in that channel in the next two years.



## Conclusion

Income annuities have received a lot of attention lately. The U.S. population is aging and people are living longer. Retirees will be relying less on pensions and social security for retirement income. These demographics create a need for a guaranteed income solution that protects against longevity and inflation. Something the income annuity is ideally suited to address.

The addition of the deferred income annuity is opening the income annuity market to a new and coveted market segment, the pre-retiree. Also existing carriers have worked to broaden the income annuity's appeal by adding features which increase liquidity, offer death benefits, and flexible payments.

For these reasons, advisors who are engaged in retirement income planning are beginning to take a second look at income annuities. Including an income annuity, either deferred or immediate, can help meet a client's basic needs and allow an advisor to invest the remaining portion of money more aggressively.

Finally, there is opportunity for income annuity sales to grow. The challenge will be in marketing them properly and educating the advisors and clients of their benefits.

## Participating Companies

Allstate Financial	MetLife
American Equity Investment Life Ins Company	Midland National Life
Ameritas Life	Modern Woodmen of America
Amica Life Insurance Company	Nationwide Life Insurance
Bankers Life and Casualty Company	New York Life
Cincinnati Life	Northwestern Mutual
Cuna Mutual Group	Pacific Life
EMC National Life Company	Penn Mutual Life Insurance Company
EquiTrust Life Insurance Company	Phoenix Life
Federated Life Insurance	Principal Financial Group
Genworth Financial	Prudential
Guaranty Income Life Insurance Company	RiverSource Life
Guardian Life	Securian Financial
Hartford Life	Standard Insurance
Indiana Farm Bureau Insurance Company	Symetra Life
ING	Thrivent Financial for Lutherans
Kansas City Life Insurance	Transamerica Life Insurance Company
Knights of Columbus	USAA
Lincoln Financial	Western Southern Financial Group
MassMutual	



## Related Links

### **[The Retirement Income Reference Book, LIMRA, 2012](#)**

The *Retirement Income Reference Book* provides a comprehensive view of the latest LIMRA data, projections and research on retirement income market, and brings together highlights from the various studies that LIMRA has been doing to help our member companies achieve their strategic business goals in the retirement space. The Retirement Income Reference Book will help members assess the retirement income market opportunity, decide which new products and solutions are right for their clients, and scope out strategy to garner an increasing share of this growing retirement income market. Firms that are active in the retirement market: manufacturers, distributors, and advice providers alike will find this 2012 edition of The Retirement Income Reference Book to be the premier source of information required to capitalize on the opportunity at hand.

### **[The Pre-Retiree Market: Surveying the Landscape \(2012\)](#)**

This report provides updates to sections of LIMRA's 2010 report, *Scaling the Pre-Retiree Market*, as well as findings and insights from a new LIMRA survey of over 900 pre-retirees. It explores pre-retirees' household and individual characteristics, their levels of preparedness for retirement, and their attitudes toward various risks and approaches to risk management.

### **[Advisor Perspectives on Retirement Planning \(2012\)](#)**

Gain an updated perspective from 2009 on how advisors approach retirement planning with their clients, the extent to which formal written plans and risk management products are part of the planning process and could play a more significant role. Differences in planning approaches and preferences across advisor types are highlighted, as well as the areas in which advisors desire more support and training.

### **[U.S. Deferred Annuity Buyer Attitudes and Behaviors \(2012\)](#)**

Companies can gain insight into why consumers are buying annuities, how high satisfaction levels create referral and additional buying opportunities, that having a plan to manage their assets not only increases an individual's confidence their assets will last a lifetime but can also lead to an annuity purchase, and how a large number of buyers indicate that they initiated the annuity discussion about purchasing an annuity. This report will be beneficial to marketers and market researchers, as well as areas dealing with product development, financial/retirement planning, training of advisors selling annuities, and the development of marketing materials.

### **[The Case for Income Annuities in Retiree Portfolios \(2012\)](#)**

As LIMRA research demonstrates, an income annuity adds longevity to portfolio in a down market. This article looks at four questions dealing with income annuities versus systematic withdrawal plan methods and examines different scenarios to investigate the comparative advantages of various approaches. Advisors, as well as distributors, need to understand more holistically the retirees' needs and build better retirement portfolios by using both conventional assets and income annuities.



## Related Links

### **[Fact Book on Retirement Income \(2011\)](#)**

Understanding the opportunities in different generational market segments by assets and income is necessary for companies to market products and services. LIMRA analyzed different market segments like the Baby Boomers, the Silent Generation with data from two public sources: the 2007 Survey of Consumer Finances Federal Reserve Board (2009), and the U.S. Census Bureau's Current Population Survey, March 2010 Supplement, along with retirement income data from LIMRA surveys to help you better understand the growing retirement income market.

### **[Liquidity Features in Income Annuities \(2011\)](#)**

CANNEX and LIMRA collaborated and found liquidity options for income annuities have increased over the last few years. Liquidity is becoming a point of differentiation among competing income annuity products, and recent entrants into the market tend to have a liquidity feature available for new income annuity products. Immediate annuity product developers and marketers can identify various liquidity features available in the market and design competitive payout annuities. Help advisors to overcome objections.

### **[Sources of Retirement Income \(2011\)](#)**

Win retiree dollars! With an in-depth understanding of U.S. retirees' income and spending, along with challenge they face, companies can target the various market segments based on their concerns. Companies can apply the findings to segment and target retiree market, develop solutions, such as retirement income education and training programs, along with suitable retirement products.

### **[Guaranteed Income Annuities \(2010\)](#)**

Gain a better understanding of the market for deferred contracts issued before 2010 that annuitized in 2008 or 2009, as well as immediate contracts that were issued during the same two-year timeframe. Thirteen companies participated in LIMRA's 2008-2009 Annuitization Study. This report summarizes some of the key findings of the study; more detailed results are available to participating companies.

### **[Retirement Income Planning: What Really Happens With Advisors, LIMRA, 2010](#)**

Gain a more in-depth understanding of this transformation from the advisor's perspective and the array of challenges they face during the retirement income planning process. Companies can win in this marketplace by designing products that can be explained simply. Please note that an audio/visual report compliments this report in PDF format.

### **[Behavioral Economics and Annuitization \(2006\)](#)**

While LIMRA estimates the total potential U.S. market for annuitization at over \$260 billion, very little of that potential is being realized. While consumers feign interest in guaranteed retirement income, they show little interest in annuitizing a significant portion of their wealth. This report explores the psychological reasons why, and suggests solutions based on the principles of Behavioral Economics.





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