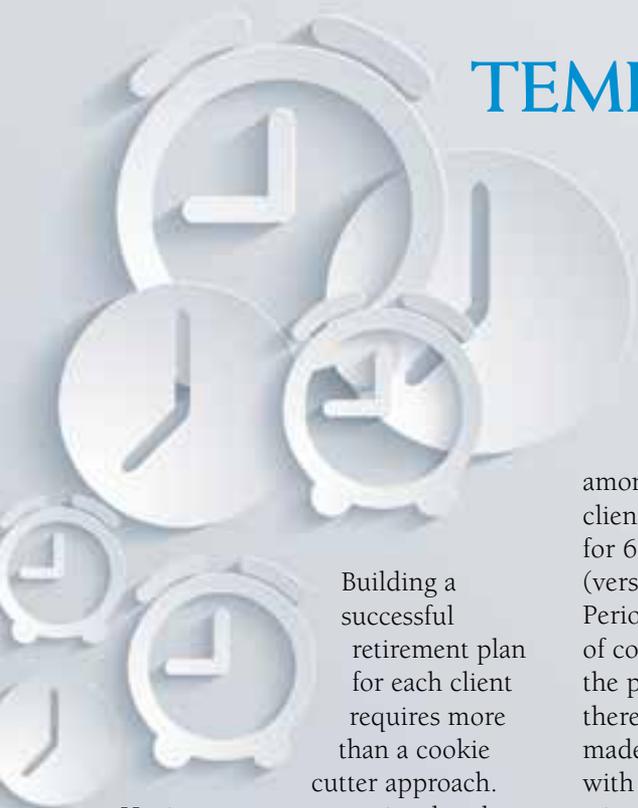


TEMPORARY LIFE ANNUITIES

A Little-Known Feature for Immediate Income Annuities

By Gary Baker, CANNEX Financial Exchanges



Building a successful retirement plan for each client requires more than a cookie cutter approach.

Having ways to customize the plan can help you target it to each of their personal goals. There are a number of features and variations available with an income annuity which can be applied depending upon the financial plan being deployed in retirement. These options are typically locked in at the time of purchase and include:

Annuity Type:

- Single Lifetime
- Joint Lifetime
- Certain Period Only

Beneficiary Guarantee Type:

- No Guarantee (Life Only)
- Life with a Certain Period
- Life with a Refund

Payment Adjustment Option:

- No Adjustment
- Fixed Percent Adjustment
- CPI Adjustment

The choice made with any of these options can have, in some cases, a dramatic impact on the amount of monthly income generated from a particular contract. Based on quote statistics from the CANNEX Income Annuity Exchange, the choices made for two of these three categories shows a clear favorite

among financial advisors and their clients. Single Life Contracts account for 62% of the Annuity Type activity (versus Joint @ 20% and Certain Period Only @ 18%) and over 96% of contracts have No Adjustment to the payment over time.¹ However, there are a wide variety of selections made for Beneficiary Guarantees with no clear or overwhelming winner. Over 75% of contracts have some form of Beneficiary Guarantee that ensures that the client's estate receives a portion of original premium, in the event the annuitant passes away early – less any payments already received. In some cases, the estate receives more than the original premium. The most common beneficiary guarantees being used in the market are a “Life with 10-Year Certain Period” (with an average of almost 70% of the premium guaranteed) and a “Life with Cash Refund” (with 100% of the premium guaranteed).

The table below shows the trade-offs between various Beneficiary Guarantee options and the amount of monthly income generated.

Contract Type	Monthly Payment	Minimum Payout
Life Only (with no Guarantee)	\$580	\$0
Life with 10-Year Certain Period	\$561	\$67,320
Life with 20-Year Certain Period	\$512	\$122,880
Life with Cash Refund	\$530	\$100,000

Source: CANNEX Financial Exchanges; August 8, 2013; Male, 65-years-old, \$100,000 premium, Non-Qualified Funds, Connecticut; Average of Top Five Payouts in market

As you can see, the choice of no Beneficiary Guarantee (i.e.,

Life Only) yields the highest monthly payout because the insurance company doesn't have to accommodate a “death benefit” in the event the client gets hit by the proverbial bus early during the life of the contract. In other words, 0% of the premium is guaranteed.

So, even with the highest payout, why would anyone elect to waive any form of guarantee, knowing that the insurance company could end up keeping most of it, if not all, of the money in the event of an early death? Well, first of all, not all retired – or retiring - clients have a beneficiary to account for within their financial plan (unless, of course, they choose to factor in their cat or dog depending upon what estate planning magic the advisor can pull off). Secondly, the income annuity may only account for a relatively small portion of the allocation within a client's overall portfolio, and they're able to adequately cover liquidity and estate planning needs with other assets.

If having no beneficiary guaranty is the most appropriate option for a client, then there exists an additional feature that can further increase the income generated from a lifetime contract. A Temporary Life option is basically a feature where the income payment will stop either at the end of a defined period of time (i.e., a “Temporary Period” of time) or when the annuitant passes away – whichever is first. In other words, it's basically the opposite of a “Life

with Certain Period” option – it’s almost like a “Certain Period with Life” contract that will stop early if the client passes away, with no benefits being passed on to heirs. The table below shows the trade-off and comparison between a Certain Period Only and a Temporary Life contract with the same client profile. The previous table was from Western & Southern Financial Group which happens to offer a Temporary Life option.

you can set up lifetime contract with a 10-year Certain Period and a 15-year Temporary Period (note: the Temporary Period must be larger than the Certain Period). Once the contract continues past the first ten years, a Temporary Period can then take effect for the next five years with no beneficiary guarantee. This variation of Temporary Life is not currently available in the U.S. market, but it has been around in the past.

Contract Type	Monthly Payment	Minimum Payout
10 Certain Period Only	\$898	\$107,760
Life with 10-Year Temporary Period	\$940	\$0

Source: CANNEX Financial Exchanges; August 8, 2013; Male, 65-years-old, \$100,000 premium, Non-Qualified Funds, Connecticut; Integrity Life Insurance Company

Another variation of Temporary Life can also be applied to a “Life with Certain Period” contract where some beneficiary guarantee can be applied, if needed. For example,

of a lifetime contract. Ultimately, it demonstrates how dynamic income annuity contracts can be in calibrating the appropriate estate planning needs with a level of

The basic Temporary Life option is available from a small number of carriers, and, as you can see, it can help “turbo-charge” the lifetime portion

guaranteed lifetime income within a retirement portfolio.

1 – CANNEX Quarterly Survey Report – Income Annuity Exchange; 2nd Quarter 2013

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