A Month of SPIAs

By Editor Test *Wed, May 4, 2011*

Starting with today's issue, we'll devote four weeks of cover stories and features to single premium immediate annuities. Millions of mass=affluent Americans will need them.

Retirement Income Journal will focus on single-premium immediate annuities, or SPIAs, during the month of May.

Starting with today's issue, which features a profile of New York Life's immediate annuity business by Stan Luxenberg, we'll devote four weeks of cover stories and features to these guaranteed retirement income vehicles.

We'll bring you stories about price-shopping for SPIAs online, about the continuing growth of the Hueler IncomeSolutions SPIA platform and a variety of other pieces on income annuities.

Why income annuities? Aren't variable annuities more profitable and more exciting? We think income annuities are misunderstood and misrepresented, and that no retiree or advisor can afford to overlook the value of the mortality (or "survivorship") credit that income annuities offer.

And, as you can see from today's Data Connection chart, sales of SPIAs are trending upward, just as demographic trends suggest they should. Indeed, Chris Blunt, head of Retirement Income Security at New York Life, predicts a $100 billion-a-year market for SPIAs by 2021.

(As for variable annuities: *RIJ* will devote the month of July to variable annuities and their Guaranteed Lifetime Withdrawal Benefits, as we did last year.)

We noted above that income annuities are misunderstood. Consider, for example, a story by Brett Arends in last Saturday's *Wall Street Journal*, titled "Retirement Income? Annuities Come Up Short."

The illustration shows the long arms of (presumably) an insurance company executive (or is it a central banker?) pulling the metaphorical rug (a giant dollar bill) from under the cane and walker of a frail elderly couple.

Now, praise for SPIAs in the *Journal* seems about as likely as praise for vegan cooking in a cattleman's quarterly. Mr. Dow and Mr. Jones prefer equities.

To be sure, the article isn't entirely unbalanced (although it front-loads the negative and back-loads the positive). Arends is right to say that today isn't necessarily the right time to buy an income annuity, given the fact that interest rates have nowhere to go but up. (For that matter, some experts don't think it's not a good time to buy stocks or bonds either.)

But Arends does more than question the appropriate of a SPIA purchase today. By cherry-picking a couple of worst-case-scenarios, he perpetuates several out-of-date myths about income annuities.

First, the article compares income annuities to investments, and mocks the “paltry 3% a year” return for a 65-year-old who lives to age 82 or 85. But income annuities aren’t investments. They’re insurance. And the big payoff comes if you live a very long time. Longevity insurance isn’t about investment returns. It’s about the value of risk pooling and relief from hoarding.

The story warns about high costs—saying that insurers “pocket the first 5% of your investment as commission.” (Not necessarily.) It compares today’s SPIA payout rates to the payout rates of the mid-1980s, when interest rates were at historic highs. (Irrelevant.) It talks about SPIA’s vulnerability to inflation. (It’s not alone.) It says SPIAs let you “leave nothing to your heirs.” (Wrong.)

In our reporting this month, we’ll try to skewer these criticisms. We’ll explain ways to get the most out of SPIAs while avoiding the pitfalls. Even Arends offers a backhanded compliment to SPIA at the end of his article. He shows that alternative strategies—staying in cash, buying CDs, staying invested the stock market, or delaying retirement—are not strategies at all.

Sure, anyone can buy the wrong SPIA at the wrong price at the wrong time. This month, we’ll talk about how to buy the right SPIA at the right price at the right time.