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## **Annuities, Sudden Darlings of the Media**

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By Editor Test     *Mon, Jun 20, 2011*

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*Positive articles about annuities are certainly welcome—especially at a time when a relentless interest-rate drought is desiccating their value—but recent pieces in Barron's and the New York Times didn't advance the annuity dialogue very far.*

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Angelina Jolie and annuities now have something in common. I know this because the cover [story](#) of *Barron's* on June 18 declared that annuities are “hot.”

Only two weeks earlier, the *New York Times* ran economist Richard Thaler's [encomium](#) to annuities. (Fascinatingly, his last name is the root word for “dollar.”) Annuities are suddenly the darlings of the media. And that's as refreshing as it is surprising.

However. While positive articles about annuities are certainly welcome—especially at a time when a relentless interest-rate drought is desiccating their value—these particular articles don't advance the annuity dialogue very far.

The *Barron's* article unknowingly reinforced the confusion between deferred and immediate annuities. It seemed to suggest that people buy or should buy deferred annuities with the goal of annuitizing them. We know that's not so. It failed to point out that the five main kinds of annuities don't have a lot in common except the name “annuity.”

Don't accuse me of pettifogging. To me, the blurring of these distinctions explains some of the public's inability to understand annuities and part of their resistance to using them. I'd rather see articles that helped disperse the fog.

A list of the 25 “best annuities” accompanied the story. It also surprised me. (See “Data Connection” on RIJ's website today and our news item on The Standard, National Life and Royal Neighbors of America.)

First, the editors divide immediate annuities into two categories: life-only and 10-year fixed-only. Why? Life-with-10-year-certain is the best default SPIA. Just as mysteriously, the top immediate annuity issuer, New York Life, failed to appear in either category. Based on what? A snapshot of payout rates? In the fixed indexed category, there's also no mention of Allianz Life's top-selling Master Dex contract.

In the variable annuity category, the *Barron's* editors didn't mention any of the three most popular individual variable annuities, the Jackson National Life Perspective, the Prudential Premier Highest-Daily, and the MetLife Investor Series. The editors didn't seem to factor in a VA's lifetime income rider at all. *Barron's* apparently thinks most VA owners do or should annuitize their contracts at retirement. I'm not against that. It just doesn't reflect reality.

This article wasn't a serious attempt to educate readers about annuities, the mortality credit, or an annuity's ability to fill gaps in floor income during retirement for the mass-affluent. The reader-comments that trailed the article showed that confusion and suspicion among investors about annuities still reigns.

Richard Thaler's article in the *New York Times* lost me at hello. He opened with a comparison between "Dave", who has a defined benefit pension and "Ron," who has a big 401(k) balance. Thaler wondered why Ron shouldn't follow Dave's example and buy an immediate annuity instead of trying to manage the money himself.

I wonder why Thaler wonders. People perceive a defined benefit pension as an employer-paid benefit. People perceive 401(k) assets as their own money. There's a huge behavioral difference between taking a DB pension (which many people reject in favor of cash when they can) and buying an annuity with your own money.

Also, DB pensions are cheaper than retail annuities. And people with DB plans often have 401(k) plans, so they may not have to make a tough choice between liquidity and income. Thaler's making an apples-to-oranges comparison. Am I quibbling here? Should I be grateful that a positive article about annuities by a respected economist in a respected publication appeared at all? Perhaps.

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