

Insurance executive responds to WSJ critique of income annuities

By Editor Test Tue, May 10, 2011

His firm's "temporary life annuities" offer a remedy to some of the perceived shortcomings of income annuities that were mentioned in a May 1 Wall Street Journal article, says Gary S. Mettler, vice president at Presidential Life.

After reading a *Wall Street Journal* article entitled, "[Retirement Income? Annuities Come Up Short](#)," Gary S. Mettler, vice president of Nyack, NY-based Presidential Life Insurance Co., an issuer of temporary life annuities, wrote this response to the paper:

"The fixed annuity industry has already begun to address many of the issues raised in [Brent Arends'] *Wall Street Journal* article, published on Sunday, May 1, 2011 regarding lifetime fixed annuities by re-introducing a derivative of the lifetime annuity called 'temporary life.'

"Temporary life is a short duration and life-contingent fixed annuity. The contract usually doesn't exceed durations of 5 or 6 years, with the provision that one must continue to survive to receive annuity payments, but in no case will it last more than the scheduled duration.

"With this fixed annuity design, the Insured/Annuitant gets the benefit of two pricing elements; the interest rate assumption (now, admittedly very low) and the use of their mortality factor, based on their age and gender. Both elements work to boost annuity payments. But, because the contract is a short duration, again usually 5 - 6 years, the cost to purchase a temporary life "life contingent" income annuity is much lower than the cost to purchase a full lifetime annuity.

"For example: A male, age 80 need only spend \$52,793 to purchase a temporary life annuity in order receive a monthly income of \$1,000 for five years vs. spending \$103,505 for a lifetime income annuity.

"If this man dies after two years, then his estate is only out the \$52,793 annuity cost for the temporary life annuity and not the \$103,505 cost for the full lifetime annuity. If the man survives the five years, his income ceases from the temporary life annuity. But now he can purchase a new temporary life annuity when he is five years older, at age 85

"If interest rates don't change over this five-year period his new age 85 purchase cost for another five-year temporary life annuity will be \$49,179. However, if annuity rates improve over this period by 10% or 20% due to interest rate improvements, his new age-85 purchase cost for the temporary life annuity will be \$44,264 or \$39,434 respectively for the same \$1,000 monthly income payment.

"In this manner, individuals can still purchase the pricing element of a life contingent income without being compelled to purchase a full lifetime annuity. And via a multiple temporary life annuity contract purchase strategy at different ages, individuals can participate in a rising interest rate environment."