Remembering Our Roots: Putting the Income Back In Annuity

By Garth Bernard *Sun, Jun 7, 2009*

The immediate annuity, aka income annuity, aka "SPIA," is due for a comeback, says Garth Bernard of Retirement Income Solutions Enterprise, Inc.

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In recent times there have been premature reports of the demise of annuitization, but has anyone truly studied the history of annuitization with the aim of understanding where we've come from and how far we've come as an industry?

I was reminded of what is at stake when I came across an article in the Times Magazine of July 2, 1956, "Insurance Companies are Pro and Con".

This fascinating history lesson describes a developing row over "variable annuities", then the new kid on the block, having been pioneered by CREF in 1952. Various companies weighed in then, including "the world's biggest insurance company", Metropolitan Life, which was against, and Prudential Insurance, who weighed in heavily for the new idea. Even then, there was recognition of the retirement opportunity and the interests of "our retired people" which was the context of the debate.

The NASD and the mutual fund industry were opposed to the idea. The NYSE was also opposed and questioned why the insurance industry should enjoy such "unfair" tax advantages compared to the investment industry. The SEC provided some commentary, and the State Insurance Departments were absent (at least not quoted in the article). If you read the article without referring to the date, you would think this article was written in recent times (although certain cultural norms common for the time would have been a dead giveaway).

While the article is clearly describing the "birth" of the variable annuity, it may not be apparent from the brief description in the above paragraphs that that article in not referring to what is typically understood today by the term "variable annuity." In fact, the most enlightening lesson in this look-back at history was the fact that throughout the article, the word "annuity" was explicitly and commonly understood then to mean the income stream and the "variable annuity" vehicle starring in the article was an *immediate* variable annuity, or the variable version of the immediate fixed annuity or SPIA. In other words, the word "annuity," without a qualifier, meant "immediate annuity!"

In addition, the change in the landscape since 1956 is interesting to observe. MetLife, then the leading critic of variable annuities, is now a market leader in the sale of (deferred) variable annuities with a guaranteed income benefit rooted in annuitization and a leading innovator of (immediate) variable and fixed annuities. Prudential, then the leading supporter of the immediate variable annuity, does not market an immediate variable annuity today, but is focused primarily on deferred variable annuities with withdrawal guarantee features.

What will they say in the year 2060?

The article was written over 52 years ago – not that long ago when you think about it – but how soon we forget. This window into history and the point in time when variable annuities were born provides two important perspectives. First, if anyone suggests that annuitization is not a viable option, educate them about this slice of history, when annuities meant annuitization, and they appeared to be quite desirable in both fixed and variable form. Second, there is no reason that we should not look back in 2060 through a window to today's era and see the "rebirth" of annuitization. The point is that we must never forget our history and our roots.

What is called for is a return to the basics, including the use of simple examples that make truths about annuitization more self-evident to advisors and consumers. The insurance industry needs more champions of annuitization who can provide the schooling and lessons that are desperately needed by the audiences who stand the most to gain from it – retirees and pre-retirees who are otherwise without hope that their retirement goals can be met, and the advisors who can make a big difference in their clients' chances of retirement success.

So in 2060, how will our era be described? Will they look back through that window and say that it was the era of the rebirth of annuitization, or will they say, we forgot our own history and missed one of the greatest opportunities ever presented to the insurance industry to capitalize on its unique franchise to underwrite mortality? Only time will tell.

But perhaps, the new era of "annuity" rebirth has indeed already started today. Despite all of the obstacles, both real and perceived, advisors are increasingly discovering the power of annuitization and income annuities as *part* of a more effective retirement plan. Income annuities include immediate fixed annuities, immediate variable annuities and deferred income annuities (such as deferred period certain annuities and longevity insurance).) There are several leading advisors, pioneers in their own right, who have seen the light and are changing the face of retirement planning as we know it by using annuitization and income annuities, in addition to accumulation vehicles such as deferred annuities and investments. In addition, there are a few insurance companies – such as New York Life, Mass Mutual, Lincoln National, MetLife and Hartford Life – who are leaders in promoting annuitization by providing innovative income annuity products along with sales that prove the desirability of annuitization.

We should light the path forward, enlighten the way, and provide encouragement to leaders who defy the conventional wisdom of those who have forgotten our annuity roots and do what the majority today say cannot be done. As Samuel Adams (1722-1803) once said, "It does not take a majority to prevail, but rather an irate, tireless minority keen on setting brush fires in people's minds."