Retirement Income
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# Which Annuities Pay Out the Most?

By Kerry Pechter *Thu, Oct 25, 2018*

*The answer depends on whether your clients want income to start now or in five years or 10 years. Indexed annuities offer the highest minimum income guarantees, if you can wait 10 years for the first check.*

Various digital insurance "platforms" are making it easier for more types of advisors to sell more types of annuities. A dozen years ago, career agents would sell income annuities, insurance agents would sell indexed annuities, and broker-dealer reps would sell variable annuities. Those silos have weakened or crumbled.

So the emergence last year of a comparison tool from Cannex, the annuity data shop, where any type of advisor or producer with access to a participating platform can compare annuities, is timely. Today, advisors can run comparisons within categories using the Cannex engine; cross-category comparisons will be operational soon.

Earlier this month Cannex released a **study** called "Guaranteed Income Across Annuity Products," in which it displayed a series of charts indicating the annual income from the five highest-paying products in its databases for single-premium immediate and deferred income annuities (SPIAs and DIAs), fixed indexed annuities (FIAs) and variable annuities (VAs).

The report compared the guaranteed and average income streams stemming from a $100,000 premium invested in SPIAs, DIAs, FIAs and VAs, under various age, gender, and deferral-period scenarios. Payout numbers for the anonymous products were based on contractual guarantees or hypothetical market conditions (for products with market exposure).

Tamiko Toland

“We currently have three services: the Income Exchange, the Variable Annuity Exchange and the FIA Exchange. The systems are silo-ed right now, so you still need to do three separate searches to get a cross-silo view but we wanted to see what it will look like when that service is available. This is a proof-of-concept,” said Tamiko Toland, head of Annuity Research at Cannex.

“The fees are incorporated in our analysis. It doesn’t need to be considered separately. The higher fees are typically associated with richer guarantees. The richer guarantee may also provide a higher value to the client. The tricky thing with FIAs is that many have no explicit fees, so it’s harder to look at it the same way,” she said.

The finding that FIAs offer very competitive income guarantees comes as no surprise; the FIA premium has been driving sales of these products for several years. A closer look at the Cannex data on FIA payouts can be found below.

**Outlier advantage**

FIAs definitely appear to outshine other products If you’re looking for guaranteed annual income after a 10-year deferral period, FIAs have an definite edge. The study shows that, on a premium of $100,000, the highest-paying FIA would give a 65-year old woman a minimum annual income at age 75 of $14,313. The top-ranked VA would pay ($10,819) and the top ranked deferred income annuity would pay $11,721. For a 65-year-old man, the VA and FIA numbers would be the same, but the DIA would pay $12,960, since gender matters only in those products.

That $14,313 number, however, is an outlier. The other four payouts of the top five FIA products after a ten-year delay for 65-year women were $12,880, $12,000, $11,921 and $11,830. The highest DIA payout was $11,721. For men, the deferred income annuities were competitive with all but the outlier FIA.

When income is taken immediately or when the contract owner is relatively older, income annuities seem to be most competitive, in terms of minimum guaranteed income. For instance, a single male, 65, could get as much as $5,586 each year per $100,000 premium from an immediate annuity. The best FIA and best VA would pay only $5,000.

Variable annuities seemed to provide the most income for couples who receiving payouts at purchase or after a delay of only five years. For a M65 and W60, the top product produced $7,560 in five years and $5,600 immediately. The top FIA paid $7,073 and $4,500 respectively. The top income annuities paid $6,874 and $5,196, respectively. With their equity exposure, VAs performed even better during bull markets.

**Lapse-dependent payouts**

There are several identifiable reasons why certain products do best in certain situations. Fixed income annuities work best for immediate income in part because the anticipated gains from mortality experience and interest revenue are spread evenly across all payments, starting with the first one. Variable annuities offer the most upside potential in bull markets because they offer equity exposure.

“Their overall message certainly is sound,” said Jon Legan, a principal at AnnuityRateWatch.com, which competes with Cannex, after reviewing the study. “Single premium immediate annuities are priced and design to perform immediately. Also, FIA guaranteed lifetime income scenarios will provide a greater ‘guaranteed’ income because they’re built and designed to have underlying guarantees.

“And of course variable ‘may’ provide for greater income, because [unlike the FIA] they don’t have a guaranteed protection of account value priced into the contract and because they can have higher potential returns. That’s stating the obvious.”

But the payout numbers for FIA are the result of factors that are completely opaque to the advisor and the client. FIAs can offer higher guaranteed payout rates because they know that a high percentage of people who buy the product and pay for the rider for several years will either surrender or exchange the contract or otherwise “lapse” coverage.

As Cannex put it in the study, “With these products, there is always going to be a segment of buyers that never take payments on their guarantees. Assumptions around utilization are built into the cost and, therefore, are ultimately reflected in the value to the client.”

Tim Paris

"If a product is lapse-supported, it can appear to provide very generous benefits over the long-run, but that is done with the expectation that very few will hold onto the product long enough to receive those benefits," Tim Paris, CEO and actuary at Ruark Consulting, told *RIJ*.

"For people who surrender the product early, they would tend to not see those generous benefits. And if many people (i.e. more than the issuing company expected) hold onto the product in order to see those generous benefits, that will probably be a very expensive proposition for the issuing company," he added.

The FIA payout guarantees aren't teasers—a contractual guarantee is a guarantee. But the issuers of FIAs undoubtedly have more latitude in advertising an industry-leading price than issuers of income annuities, who know they'll have to deliver on almost all of their promises, not just some of them. So the "reality content" of the numbers in the Cannex charts varies from product to product.

The idea of lapse-supported payouts might pose trouble a fiduciary advisory. He or she may have ethical qualms about steering clients to a non-transparent product or about recommending a product whose income rider is great because many people, for one reason or another, buy it but never use it. Merely celebrating the size of the guarantee won't banish this paradox from the mind of a sophisticated fee-only advisor or RIA's investment advisor representative.

Product selection, it has been said, should be the last stop in the retirement income planning process, and the price or yield won't necessarily be the most important factor in choosing a product.

"Advisors need to know that these products are just different tools in retirement income planning," said Legan. "One can't just be dead-set on selling FIAs exclusively. Just like all insurance, annuities are needs-based products. Insurance is inherently needs-based.

"The selection of different coverage and features have to be predicated on the client's objectives. There are so many 'tools' in retirement planning, but a tool is only useful to the extent that it meets the client's specific needs, and a needs-assessment should always precede a product assessment."

In the first half of 2018, FIA sales in the U.S. were 32.1 billion, 14% higher than the first half of 2017, according to the LIMRA Secure Retirement Institute. VA sales improved 2% to $25.8 billion in the second quarter, after 17 consecutive quarters of declines. VA sales were $50.4 billion in the first half of 2018, level with prior year results.