

Which annuities pay the most income? Cannex has a clue.

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'Our study reveals a complex story—the highest guaranteed income product varies significantly by client and when income begins,' said Tamiko Toland, head of Annuity Research at Cannex.

There's no easy response to the question, "Which annuities provide the highest guaranteed income?" But product appraisal tools introduced last year by Cannex, the Canadian-American annuity data shop, are designed to help advisors make something reasonably close to apples-to-apples comparisons.

A new [report](#), "Guaranteed Income Across Annuity Products," is based on a study conducted using those analytic tools. The report shows that even when different annuity contracts offer equivalent benefits "on paper," they can still generate different amounts of monthly income for different clients. Individual payouts depend in part on gender, age when income begins, length of delay between purchase and when income begins, whether the contract is single or joint-and-survivor, and whether the income is inflation-adjusted.

"Using our quantitative tools to compare different types of annuities across products and providers on an apples-to-apples basis, the study reveals a complex story—the highest guaranteed income product varies significantly by client and when income begins," said Tamiko Toland, head of Annuity Research at Cannex.

"There are many factors that go into the selection of an annuity. Income generation is not the only one, but it is central to their value proposition. Advisors need to rely on real analytics, not traditional perceptions or best guesses of how guarantees work to best serve their clients."

For those seeking immediate income, single premium immediate annuities (SPIAs) usually provide the highest guaranteed income, the Cannex report says. But a variable annuity (VA) with guaranteed income may generate the highest annual payments under certain circumstances, such as when a man and wife of different ages buy a joint-and-survivor contract.

For people who can wait five or ten years after purchase to begin taking income from their contracts, fixed indexed annuities (FIAs) with lifetime income guarantees typically provide more income than either deferred income annuities (DIA) or deferred variable annuities with lifetime income guarantees.

This advantage stems in part from the fact that FIA owners sometimes don't exercise their optional income riders, even after paying fees for them. That allows issuers to promise higher benefits to the people who stay. Unlike DIAs, FIAs with "living" income benefits are always liquid and can be cashed out, exchanged for another annuity, or left permanently in accumulation-mode.

For women, FIA income riders tend to pay more than DIA guarantees. The differential between a fixed indexed annuity and a deferred income annuity is greater for a woman because DIA benefit payments are based on gender-specific longevity expectations while FIA payments are not. The longer she waits to take income, the more a woman benefits from choosing an FIA over a DIA.

Based on a \$100,000 premium investment in a DIA at age 65, a woman of average projected longevity would receive, after a 10-year deferral, around \$11,700 in annual income at age 75. A man would receive about \$12,900. By contrast, an FIA could generate as much as \$14,313 of annual income regardless of gender.

"It's often assumed that simple income annuities provide the highest guaranteed lifetime income compared to savings annuities such as FIAs or VAs," said Gary Baker, president of Cannex USA. "This idea has become ingrained in the way we talk about income annuities in the planning process.

"As the industry leans towards a best interest standard for advisors, it is important for them to be aware that they should consider guaranteed income across all available products for clients with an income objective."

The report draws upon Cannex's quantitative annuity comparison tools. The tools enable financial institutions and advisors to evaluate the value of annuity guarantees based on the design of the benefit. In addition to looking at the minimum income guarantee, the tools arrive at an average income using a wide range of market performance scenarios.

For SPIAs and DIAs, projections include a death benefit and 100% spousal income continuity option, so full benefits are comparable to FIAs and VAs. For VA simulations, the asset allocation mix is 60% equity and 40% fixed income. The FIA performance is contingent on the crediting method and index; this research compares designs based on the S&P 500 Index.

By evaluating the performance of savings annuities in a range of market scenarios, the report highlights an additional important consideration when comparing guaranteed income

benefits. The data reflects the trade-off between the level of guarantee and the upside potential in a rising market.

FIAAs with the highest guarantee are less likely to experience a noticeable increase in income based on market performance. Those with lower guarantees are more likely to see greater upside potential. This applies to FIAAs and to a lesser extent to VAAs.

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