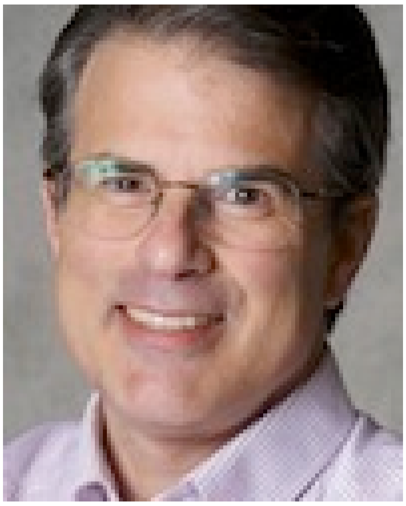
Why Bruce Springsteen Is America's Most-Likely Income Annuity Buyer

By Kerry Pechter *Thu, Feb 1, 2018*

Cannex, the Canadian-American annuity data shop, has just released its analysis of 2017 sales of immediate and deferred income annuities. It turns out New Jersey-ites buy the most income annuities, and the Boss is exactly the right age for one.



New Jersey, though far from the most populous U.S. state, boasts the most income annuity sales. The Garden State is also home to folk-blues rocker Bruce Springsteen who, at age 68, has just recently surpassed the average age (67.5) for the purchase of an income annuity.

We know these facts—about annuities, not about the Boss (below right)—because Cannex has released its annual survey of single-premium immediate annuities (SPIAs), deferred income annuities (DIAs) and qualified deferred longevity annuity contracts (QLACs) sold in 2017 through distribution platforms that rely on Cannex's carrier-approved contract pricing data. For survey pdfs, click **here** and **here**.

Perhaps the most notable statistic in the data set was that nearly 40% of the contracts sold included a cash refund option. (This option, which refunds unpaid-out premia to beneficiaries upon the death of all annuitants, reduces the contract owners' annual income.) An additional 41% were either life-only (26%) contracts or life with 10 years certain (15%) contracts.

The client is using part of the premium to, in effect, buy enough life insurance to cover the risk that he might die before getting all of his premium back. Annuity purists would say that it's inefficient to buy mortality and longevity protection from the insurance carrier at the same time—just as it would be inefficient to press the gas pedal and the brake pedal simultaneously.

Curiously, the report also shows that when advisors asked for Cannex to quote the income for a specific premium or the premium necessary for a specific income level, they often used income or premium amounts well in excess of the income or premium reported for contracts actually sold.

Cannex president Gary Baker said the reason for that wasn't entirely clear. "The size of the average premium has always been somewhat of a mystery at CANNEX since we started this report five plus years ago," he told *RIJ* in an email this week.

"Our hypothesis is either: a) for mass affluent/high net worth clients, the advisor is typically working with a bigger premium amount (e.g., 20% of a $1 million portfolio), but will split the purchase amongst two carriers to diversify crediting risk and match the state guarantee limit (@ around $100,000).

"Or, b) for middle-market/smaller savers, the advisor is looking to see how much of a guarantee a large portion (or all) of a nest egg could generate, and then dial back based on compliance requirements (i.e., some firms require that the advisor leave a certain percentage liquid in a client's portfolio)."

The Cannex data represents much of the U.S. market. According to its report, 1,143,698 income annuity contracts were sold in the U.S. in 2017. Almost exactly two-thirds were immediate contracts and one-third were deferred. Single-life was the most popular (58%), followed by joint life (31%) and period certain only (11%).

Though the data doesn't contain an average purchase premium, but the following statistics may help in imagining the most common types of contracts:

- 25% of the contracts (where the premium was given) had a premium of between $75,000 and $100,000.
- 17% had a premium of $100,000 to $200,000.
- Those contracts represented 42% of the total and almost half of the contracts where the premium was provided.
- 40,000 QLACs were purchased.
- 61% of contracts were non-qualified.
- Close to 60% of the contracts were purchased by people between the ages of 55 and 69, with 25% between ages 60 and 64.
- 65% of primary annuitants were male and 85% of the joint annuitants were female.
- Almost all (94%) of the joint contracts were non-reducing on the death of the primary annuitant. Where payments were reduced, they were most often reduced by 50%.

My biggest takeaway from the Cannex data is that older people are clearly ready to concede a big chunk of the income from an income annuity just to be certain that if they are struck by a bus—that rogue bus that pursues annuity contract owners as ruthlessly as tornados target trailer parks in Kansas—the day after the free-look period ends.

They either don’t understand the principle behind longevity risk-pooling (highly possible) or they can’t sleep at night for worrying about the Stephen King-possessed bus and its effect on their heirs (also possible) or the advisor/agent who sells them the contract is hedging his or her risk of facing outraged beneficiaries in the future.