



SOCIETY OF ACTUARIES

Article from:

Product Development News

November 2004 – Issue 60

Focus on Immediate Annuities

by Sue Sell

An emerging area of interest among life insurance carriers today is the stand-alone immediate annuity market. Single Premium Immediate Annuities (SPIAs) still make up a relatively small part of the fixed annuity market. According to LIMRA International, Inc., SPIAs accounted for only 6 percent of total fixed annuity sales in calendar year 2003. However, a number of companies have experienced significant increases in immediate annuity sales in the past year and the amount of resources being expended in this market continues to grow. My firm recently conducted a survey of leading immediate annuity insurers to discover current dynamics of the immediate annuity market. The scope of the survey included fixed and variable immediate annuities, but excluded structured settlements.

Twenty-four carriers participated in the fixed immediate annuity (SPIA) portion of the survey. The level of response suggests there is great interest in this topic. Four carriers responded to the variable immediate annuity (VIA) part of the survey. The VIA market is less active right now. The comments that follow will primarily address SPIA results.

Overall, the average single premium for SPIA survey participants was nearly \$98,000. Nonqualified premiums averaged over \$123,000 and qualified premiums averaged about \$81,000. The average issue age reported was 71 and the gender split was 46 percent males, 54 percent females. These results all seem to dovetail with one's intuition.

Nearly all participants offer all of the standard payout options (period certain, single life, joint and survivor) with few unique structures currently being offered in any number. About 52 percent of sales elected period certain options, with about 29 percent of these electing a five- to 10-year certain period. The election rate for single life options was 32 percent.

The following chart shows the distribution of SPIA sales by channel. Career agents and independent producers continue to dominate the market.

Distribution Channel	Percentage
Career Agents	36%
Independent Producers	42%
Wirehouses	3%
Large/Regional Broker-Dealers	9%
Independent Broker-Dealers	4%
Banks	5%
Other	1%

Many of the carriers most active in the SPIA market have sales more concentrated in the career agent and independent producer channels, thereby skewing results by channel as shown above.

Sales in the last few years have jumped dramatically for a number of carriers. Many attribute the increase in sales to the use of SPIAs for premium financing. The immediate annuity survey questioned participants about the percentage of immediate annuity business used to finance life insurance and long-term care insurance. An average of 13 percent of the business was used to finance life insurance premiums and an average of 1 percent of the business was used to finance long-term care insurance. One carrier reported that 80 percent of its immediate annuity business was used to finance life insurance premiums. Similarly, another carrier reported that 10 percent of its business was used to finance long-term care premiums.

One of the barriers to the sale of immediate annuities is the perceived lack of liquidity for the policyholder. Only half of the survey participants provided for the commutation of benefits on period certain options. (When benefits are commuted, a lump sum amount equal to the present value of future benefits is paid. A surrender charge and/or market value adjustment may also apply.) Six of the carriers allowed commutations of the certain period on life with period certain options.

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