Social Media Monitoring Report   Annuities: August 2010

Overview

There were 7,507 mentions of annuities on social media sites in August, down 25 percent from July's 9,970. Blog comments, the major source of activity, were down 26 percent in August; Twitter comments were down even more, 41 percent, while Forum and News comments were down more than 10 percent. Comments about immediate annuities were flat while comments about all other products were down 20 percent or more compared with July.

Sampling of What's Being Said

This month's examples feature confusion about "guarantees" and when to buy an immediate annuity. Do you agree with their arguments?

Post: No real loss protection

Most equity-indexed annuity contracts promise that you will never lose money, even if the market index declines. But these costly products give you only a portion of the market's gains, and their protection against loss is minimal.

Responses:

1) The only way to lose principal on an ELIA is to cash out early and pay surrender charges. If the contract is held for the full term, there is a guaranteed minimum interest that is paid and the contract can't lose any of the principal.

2) How is the principal 100% protected/insured if it's not a bank deposit? And if so, up to what amount is this insurance? Please explain. Thanks.

3) Unless the company goes t!ts up, they continue to pay. I think there's insurance for this, but it's not like the FDIC...

Post: Buy annuity when well into retirement

In that interview you stated the following: "Immediate annuities are the only kind of annuity I would consider, and then, only in good health and well into retirement." I would appreciate clarification an why you only recommend an annuity "well into retirement." I am in my early 60's. Are you advising deferring an IA until later in my retirement? If so, when and why?

Responses:

1) What makes an annuity useful is "mortality credits." The irrevocable principal paid in by shorter-lived annuitants is what finances the payments to the longer-lived annuitants. But it is a gradual process. An annuity starts out "investment-y" at the beginning and becomes more "insurance-y" over time. So the case for an annuity becomes more and more compelling over time. But there's no hard-and-fast line, nobody can say there's a specific age.

2) Before you actually give money to an insurance company for a SPIA, I suggest you consider funding a sinking fund investment to pay you your Social Security equivalent until age 70. Deferring SS to age 70 is the best buy available for acquiring an inflation adjusted, US government guaranteed annuity. The cost for deferring a SS check between 66 and 70 is a little less than $140,000 and increases a top end SS check from about $29,000 per year to around $39,000. These sums increase with inflation which most SPIAs will not.

Unfortunately, an SPIA is usually burdened with not allowing for inflation which will greatly reduce your spending power. Buying at 65 exposes you to 10 years of uncertainty as to inflation and your changing health situation than if you buy at 75. Also, as you age you are more likely to know if you look like you might be one of the real long lived individuals. I don't think most people know this at 65.

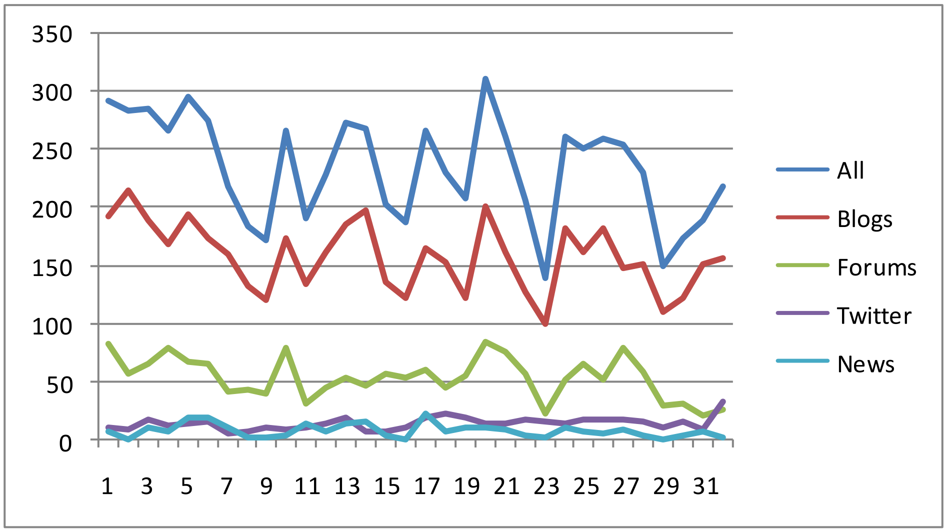
Another thing to consider is that a SPIA for a 65 year old is priced more as an investment vehicle that the insurance company expect to pay off on over 15 years or so (on average). At 75 there is more of a longevity factor in their rates. You aren't expected to live as long (on average) so there is a shorter period in their annuity calcs.

3) The benefit of a SPIA is the mortality effect which enables you to consume your retirement portfolio as if you were going to die exactly on the date expected for people of your age. The longer you wait to buy a SPIA, the shorter your life expectancy and the bigger the SPIA payout if you have the same or greater capital available to invest.

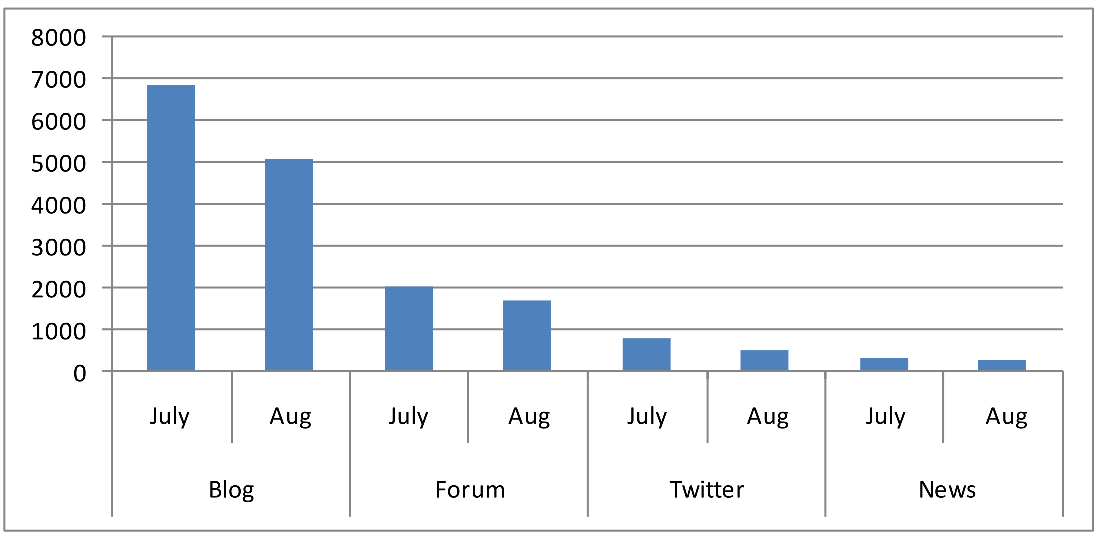
4) If you were invested in a 100% long bond portfolio yielding 4.5% after tax (150 bps above inflation), you could wait for 5 years (until you are 70) before inflation increased your withdrawals to more than your portfolio growth. That would be the point to consider a SPIA.

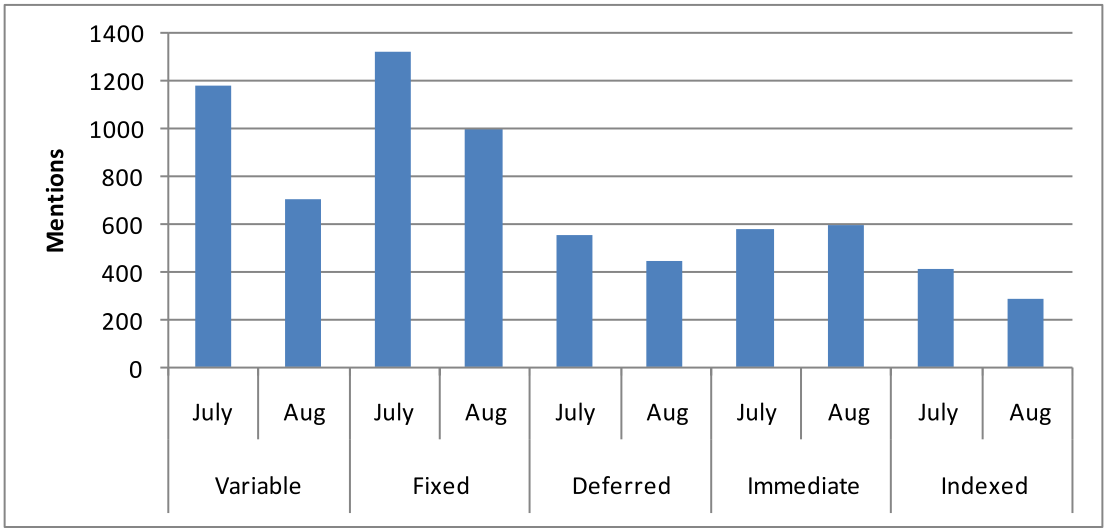
3) The adult should check with at least three trusted financial institutions for information on the best instrument. The adult could retain his or her part of the in inheritance until the child goes to college and supplement the college expenses as needed.

Activity



Comments about Annuities were level but erratic over the month of August. The number of comments was down from July except for immediate annuities.





Mentions
1400
1200
1000
800
600
400
200
0
July
Aug
July
Aug
July
Aug
July
Aug
July
Aug
Variable
Fixed
Deferred
Immediate
Indexed