

## 8 ANNUITIES

Annuities are financial contracts that pay a steady stream of income for either a fixed period of time or for the lifetime of the annuity owner (the annuitant). Most pension and retirement plan assets held by life insurers are annuity contracts. Because they can guarantee a stream of income for life, annuities protect annuity owners against the possibility of outliving their financial resources.

Annuities are sold as either immediate annuities or deferred annuities. Immediate annuities begin making annuity payments immediately, while deferred annuities defer the onset of annuity payments until some later date (typically when the annuity owner retires). During the deferral or accumulation phase, the annuity owner makes premium payments into the annuity and the savings inside the annuity grows to maximize the later annuity payments back to the annuity owner.

Codification of annual statements, effective for 2001 filings, changed the way certain lines of business are categorized and reported. This is particularly true of annuities and deposit-type contracts (e.g., guaranteed interest contracts or GICs). Prior to 2001, deposit-type funds were included with annuities; now they are reported separately. As a result, annuity data prior to 2001 is not comparable with 2001 or later data. For this reason some of the tables in this chapter only report data for 2003 and 2004.

During 2004, payments into annuities, known as considerations (Table 8.1), increased 4 percent to \$301 billion, while annuity reserves (Table 8.2) increased 11 percent to \$2.1 trillion.

Annuities provide a variety of features designed to meet different needs. Depending on risk tolerance, an annuitant can choose a *fixed annuity*, which provides stable returns, or a *variable annuity* backed by equity investments for potentially greater,

**Table 8.1 Annuity Considerations**

	Millions		Percent change
	2003	2004	2003/2004
Individual annuities <sup>1</sup>	\$165,943	\$172,140	3.7
Group annuities	102,614	104,537	1.9
Supplementary contracts without life contingencies and annuities certain	21,811	24,352	11.6
Total	290,369	301,029	3.7

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Codification effective with 2001 Annual Statement filings changed the way certain lines of business are categorized and reported, particularly deposit-type contracts, as explained in numbered footnotes. Data represent U.S. life insurers and fraternal benefit societies.

<sup>1</sup>Includes supplementary contracts with life contingencies.

but uncertain, returns. A joint and survivor annuity ensures an income stream as long as either spouse is alive. Under some options, payouts will continue to a designated beneficiary after the annuitant's death.

### Group and Individual Annuities

Contributions to group annuities, which are sold through employer-sponsored retirement plans, increased to \$105 billion in 2004, up 2 percent from 2003 (Table 8.1). Reserves for this type of annuity accounted for one-third of all annuity reserves by the end of 2004 (34%), or \$712 billion (Table 8.2). Benefit payments to group annuitants increased 6 percent to \$26 billion in 2004 (Table 8.3).

Employer-sponsored retirement plans are divided between two types that differ according to their benefits structure. *Defined benefit plans* provide a specified monthly benefit during retirement. The benefit amount is usually based on an employee's salary and length of service. The employer funds such plans and bears the entire investment risk.

Profit-sharing, 401(k), 403(b), and 457 plans are *defined contribution plans*. Rather than specifying benefits and retirement income, this type of plan specifies

**Table 8.2 Reserves for Annuity Contracts**

	Millions		Percent change
	2003	2004	2003/2004
Individual annuities <sup>1</sup>	\$1,187,938	\$1,327,139	11.7
Group annuities	662,474	712,149	7.5
Supplementary contracts without life contingencies and annuities certain	49,582	66,594	34.3
Total	1,899,994	2,105,882	10.8

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

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<sup>1</sup>Includes supplementary contracts with life contingencies.

contributions, usually as a fixed amount or a percentage of income, where the employee bears the investment risk. The benefit received under defined contribution plans is determined by contributions, investment returns, and expenses. Annuitization of the balance at retirement is not mandatory, and lump sums have been the most popular distribution method.

A person also can buy an annuity directly from a life insurer. During 2004, Americans deposited \$172 billion in individual annuities, up 4 percent from 2003 (Table 8.1). Annuity owners received \$35 billion in benefit payments, leaving \$1.3 trillion in individual annuity reserves at year-end 2004 (Tables 8.2-8.3).

### Supplementary Contracts, Annuities Certain, and Other Annuities

A *supplementary contract* is an agreement between an insurer and a life insurance policyholder or beneficiary in which the beneficiary chooses to receive the policy's proceeds over a period of time instead of as a lump sum. If this period is the lifetime of the beneficiary, the contract is a supplementary contract with life contingencies, essentially a life annuity; if the payments continue for a specific period, the contract is called a supplementary contract without life contingencies or an annuity certain.

**Table 8.3 Annuity Benefit Payments**

	Millions		Percent change
	2003	2004	2003/2004
Individual annuities <sup>1</sup>	\$32,367	\$35,033	8.2
Group annuities	24,743	26,129	5.6
Supplementary contracts without life contingencies and annuities certain	20,347	24,976	22.8
<b>Total</b>	<b>77,457</b>	<b>86,139</b>	<b>11.2</b>

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

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<sup>1</sup>Includes supplementary contracts with life contingencies.

During 2004, \$24 billion was deposited into supplementary contracts without life contingencies and annuities certain, 12 percent more than in 2003 (Table 8.1), and \$25 billion was paid to policyholders or beneficiaries (Table 8.3), leaving a total reserve of \$67 billion at the end of 2004 to back future claims (Table 8.2).

**Table 8.4 Annuity Considerations, by Year (millions)**

Year	Individual <sup>1</sup>	Group <sup>2</sup>	Other <sup>3</sup>	Total
1977	\$4,552	\$10,422	NA	\$14,974
1978	4,454	11,885	NA	16,339
1979	4,976	12,963	NA	17,939
1980	6,296	16,133	NA	22,429
1981	10,290	17,289	NA	27,579
1982	15,196	19,448	NA	34,644
1983	14,003	16,541	NA	30,544
1984	15,706	27,153	NA	42,859
1985	20,891	33,008	NA	53,899
1986	26,117	57,595	NA	83,712
1987	33,764	54,913	NA	88,677
1988	43,784	59,494	NA	103,278
1989	49,407	65,590	NA	114,997
1990	53,665	75,399	NA	129,064
1991	51,671	71,919	NA	123,590
1992	61,348	71,297	NA	132,645
1993	76,987	79,458	NA	156,445
1994	80,832	73,017	NA	153,849
1995	77,370	82,565	NA	159,935
1996	84,067	92,228	NA	176,295
1997	90,192	107,355	NA	197,547
1998	95,446	134,047	NA	229,493
1999	115,621	154,591	NA	270,212
2000	143,071	163,622	NA	306,693
2001*	141,656	109,599	\$22,675	273,930
2002*	168,428	100,861	22,608	291,897
2003*	165,943	102,614	21,811	290,369
2004*	172,140	104,537	24,352	301,029

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

NA: Not available

\*Codification effective with 2001 Annual Statement filings changed the way certain lines of business are categorized and reported, particularly deposit-type contracts. Since most guaranteed interest contracts (GICs) and other deposit-type funds are under group contracts, this accounting change has had a substantial effect on group annuities.

<sup>1</sup>For 2000 and 2001, includes supplementary contracts with life contingencies.

<sup>2</sup>Beginning in 1986, data reflect a change in statutory reporting methods mandated by the National Association of Insurance Commissioners.

<sup>3</sup>Includes supplementary contracts without life contingencies and annuities certain.

**Table 8.5 Annuity Reserves, by Year (millions)**

Year	Amount
1950	\$5,600
1960	18,850
1965	27,350
1970	41,175
1975	72,210
1980	166,850
1981	193,210
1982	233,790
1983	269,425
1984	313,215
1985	373,475
1986	441,390
1987	495,420
1988	562,155
1989	624,290
1990	695,700
1991	745,950
1992	768,215
1993	825,375
1994	878,460
1995	972,560
1996	1,312,494
1997	1,454,962
1998	1,608,494
1999	1,780,699
2000	1,819,680
2001*	1,585,008
2002*	1,619,075
2003*	1,899,994
2004*	2,105,882

Source: American Council of Life Insurers

Notes: Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

NA: Not available

\*Codification effective with 2001 Annual Statement filings changed the way certain lines of business are categorized and reported, particularly deposit-type contracts. Since most guaranteed interest contracts (GICs) and other deposit-type funds are under group contracts, this accounting change has had a substantial effect on group annuitants.