

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 2008 and 2009.

During 2009, payments into annuities, known as considerations (Table 8.1), decreased 28 percent to \$256 billion, while annuity reserves (Table 8.2) increased 13 percent to \$2.5 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* which is backed by equity investments for potentially greater, 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, decreased to \$103 billion in 2009, down 14 percent from 2008 (Table 8.1). Reserves for this type of annuity accounted for one-third of all annuity reserves by the end of 2009 (32%), or \$797 billion (Table 8.2). Benefit payments to group annuitants decreased by 6 percent to \$25 billion in 2009 (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 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 2009, Americans deposited \$129 billion in individual annuities, down more than 38 percent from 2008 (Table 8.1). Individual annuity owners received \$42 billion in benefit payments, leaving \$1.6 trillion in individual annuity reserves at year-end 2009 (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.

During 2009, \$24 billion was deposited into supplementary contracts without life contingencies and annuities certain, 10 percent less than in 2008 (Table 8.1), and \$26 billion was paid to policyholders or beneficiaries (Table 8.3), leaving a total reserve of \$75 billion at the end of 2009 to back future claims (Table 8.2).

Table 8.1

Annuity Considerations	Millions		Percent change
	2008	2009	2008/2009
Individual annuities¹	\$208,965	\$128,853	-38.3
Group annuities	119,169	102,727	-13.8
Annuities certain and supplementary contracts without life contingencies	26,842	24,053	-10.4
Total	354,976	255,633	-28.0

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 fraternal benefit societies.

¹Includes supplementary contracts with life contingencies.

Table 8.2

Reserves for Annuity Contracts

	Millions		Percent change
	2008	2009	2008/2009
Individual annuities¹	\$1,434,704	\$1,639,841	14.3
Group annuities	715,587	797,989	11.5
Annuities certain and supplementary contracts without life contingencies	73,149	74,504	1.9
Total	2,223,441	2,512,334	13.0

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

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¹Includes supplementary contracts with life contingencies.

Table 8.3

Annuity Benefit Payments

	Millions		Percent change
	2008	2009	2008/2009
Individual annuities¹	\$42,973	\$42,032	2.2
Group annuities	26,674	25,036	-6.1
Annuities certain and supplementary contracts without life contingencies	30,225	25,668	-15.1
Total	99,873	92,736	-7.1

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

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¹Includes supplementary contracts with life contingencies.

Table 8.4

Annuity Considerations, by Year (millions)				
Year	Individual¹	Group²	Other³	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 ⁴	141,656	109,599	\$22,675	273,930
2002 ⁴	168,428	100,861	22,608	291,897
2003 ⁴	165,943	102,614	21,811	290,369
2004 ⁴	172,140	104,537	24,352	301,029
2005 ⁴	167,032	110,084	25,479	302,596
2006 ⁴	187,083	115,645	26,344	329,071
2007 ⁴	192,503	121,722	27,119	341,344
2008 ⁴	208,965	119,169	26,842	354,976
2009 ⁴	128,853	102,727	24,053	255,633

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.

¹For 2000 and 2001, includes supplementary contracts with life contingencies.

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

³Includes supplementary contracts without life contingencies, annuities certain, lottery payouts, structured settlements, and income payment options.

⁴Codification 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.

Table 8.5

Annuity Reserves, by Year

Year	Reserves (millions)	Year	Reserves (millions)
1950	\$5,600	1993	\$825,375
1960	18,850	1994	878,460
1965	27,350	1995	972,560
1970	41,175	1996	1,312,494
1975	72,210	1997	1,454,962
1980	166,850	1998	1,608,494
1981	193,210	1999	1,780,699
1982	233,790	2000	1,819,680
1983	269,425	2001 ¹	1,585,008
1984	313,215	2002 ¹	1,619,075
1985	373,475	2003 ¹	1,899,994
1986	441,390	2004 ¹	2,105,882
1987	495,420	2005 ¹	2,258,240
1988	562,155	2006 ¹	2,415,158
1989	624,290	2007 ¹	2,548,490
1990	695,700	2008 ¹	2,223,441
1991	745,950	2009 ¹	2,512,334
1992	768,215		

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

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