

# 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.

During 2019, payments into annuities, known as considerations, increased 23 percent to \$368 billion (Table 8.1), while annuity reserves increased 9 percent to \$4 trillion (Table 8.2).

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, increased to \$143 billion in 2019, 14.9 percent higher than in 2018 (Table 8.1). Reserves for this type of annuity accounted for nearly one-third of all annuity reserves by the end of 2019 (30%), or \$1.2 trillion (Table 8.2). Benefit payments to group annuitants increased to \$33 billion, up 8 percent from 2018 (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 can also buy an annuity directly from a life insurer. During 2019, Americans deposited \$204 billion in individual annuities, up 32.1 percent from 2018 (Table 8.1). Individual annuity owners received \$55 billion in benefit payments (Table 8.3), leaving \$2.7 trillion in individual annuity reserves at year-end 2019 (Table 8.2).

## **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 2019, \$21 billion was deposited into

supplementary contracts without life contingencies and annuities certain, 3.1 percent more than in 2018 (Table 8.1), and \$21 billion was paid to policyholders or beneficiaries (Table 8.3), leaving a total reserve of \$96 billion at the end of 2019 to back future claims (Table 8.2).

Table 8.1

| <b>Annuity Considerations</b>   |                 |                |                |                                      |                  |
|---|-----------------|----------------|----------------|--------------------------------------|------------------|
|   | <b>Millions</b> |                |                | <b>Average annual percent change</b> |                  |
|   | <b>2009</b>     | <b>2018</b>    | <b>2019</b>    | <b>2009/2019</b>                     | <b>2018/2019</b> |
| <b>Individual annuities<sup>1</sup></b>   | \$128,853       | \$154,660      | \$204,309      | 4.7                                  | 32.1             |
| <b>Group annuities</b>  | 102,727         | 124,638        | 143,185        | 3.4                                  | 14.9             |
| <b>Annuities certain and supplementary contracts without life contingencies</b> | 24,053          | 20,024         | 20,646         | -1.5                                 | 3.1              |
| <b>Total</b>  | <b>255,633</b>  | <b>299,322</b> | <b>368,141</b> | <b>3.7</b>                           | <b>23.0</b>      |

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.

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

Premiums are net of reinsurance business and fluctuate with reinsurance activities as well as sale changes.

Please see Chapter 6 for reinsurance business.

Table 8.2

| <b>Reserves for Annuity Contracts</b>   |                  |                  |                  |                                      |                  |
|---|------------------|------------------|------------------|--------------------------------------|------------------|
|   | <b>Millions</b>  |                  |                  | <b>Average annual percent change</b> |                  |
|   | <b>2009</b>      | <b>2018</b>      | <b>2019</b>      | <b>2009/2019</b>                     | <b>2018/2019</b> |
| <b>Individual annuities<sup>1</sup></b>   | \$1,639,841      | \$2,474,726      | \$2,701,531      | 5.1                                  | 9.2              |
| <b>Group annuities</b>  | 797,989          | 1,079,362        | 1,178,535        | 4.0                                  | 9.2              |
| <b>Annuities certain and supplementary contracts without life contingencies</b> | 74,504           | 93,156           | 95,951           | 2.6                                  | 3.0              |
| <b>Total</b>  | <b>2,512,334</b> | <b>3,647,244</b> | <b>3,976,017</b> | <b>4.7</b>                           | <b>9.0</b>       |

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

Table 8.3

| <b>Annuity Benefit Payments</b>   |                 |                |                |                                      |                  |
|---|-----------------|----------------|----------------|--------------------------------------|------------------|
|   | <b>Millions</b> |                |                | <b>Average annual percent change</b> |                  |
|   | <b>2009</b>     | <b>2018</b>    | <b>2019</b>    | <b>2009/2019</b>                     | <b>2018/2019</b> |
| <b>Individual annuities<sup>1</sup></b>   | \$42,032        | \$52,754       | \$54,989       | 2.7                                  | 4.2              |
| <b>Group annuities</b>  | 25,036          | 30,654         | 33,110         | 2.8                                  | 8.0              |
| <b>Annuities certain and supplementary contracts without life contingencies</b> | 25,668          | 21,603         | 21,347         | -1.8                                 | -1.2             |
| <b>Total</b>  | <b>92,736</b>   | <b>105,011</b> | <b>109,446</b> | <b>1.7</b>                           | <b>4.2</b>       |

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

Table 8.4

| <b>Annuity Considerations, by Year (millions)</b> |                               |                          |                          |              |
|---|-------------------------------|--------------------------|--------------------------|--------------|
| <b>Year</b>                                       | <b>Individual<sup>1</sup></b> | <b>Group<sup>2</sup></b> | <b>Other<sup>3</sup></b> | <b>Total</b> |
| 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 <sup>4</sup>                                 | 141,656                       | 109,599                  | \$22,675                 | 273,930      |
| 2002 <sup>4</sup>                                 | 168,428                       | 100,861                  | 22,608                   | 291,897      |
| 2003 <sup>4</sup>                                 | 165,943                       | 102,614                  | 21,811                   | 290,369      |
| 2004 <sup>4</sup>                                 | 172,140                       | 104,537                  | 24,352                   | 301,029      |
| 2005 <sup>4</sup>                                 | 167,032                       | 110,084                  | 25,479                   | 302,596      |
| 2006 <sup>4</sup>                                 | 187,083                       | 115,645                  | 26,344                   | 329,071      |
| 2007 <sup>4</sup>                                 | 192,503                       | 121,722                  | 27,119                   | 341,344      |
| 2008 <sup>4</sup>                                 | 208,965                       | 119,169                  | 26,842                   | 354,976      |
| 2009 <sup>4</sup>                                 | 128,853                       | 102,727                  | 24,053                   | 255,633      |
| 2010 <sup>4</sup>                                 | 189,946                       | 103,677                  | 27,372                   | 320,995      |
| 2011 <sup>4</sup>                                 | 217,837                       | 117,058                  | 24,247                   | 359,142      |
| 2012 <sup>4</sup>                                 | 189,258                       | 158,837                  | 21,340                   | 369,435      |

Table 8.4, continued

| <b>Annuity Considerations, by Year (millions), continued</b> |                               |                          |                          |              |
|--|-------------------------------|--------------------------|--------------------------|--------------|
| <b>Year</b>  | <b>Individual<sup>1</sup></b> | <b>Group<sup>2</sup></b> | <b>Other<sup>3</sup></b> | <b>Total</b> |
| 2013 <sup>4</sup>  | 179,578                       | 108,091                  | 19,591                   | 307,260      |
| 2014 <sup>4</sup>  | 247,426                       | 114,160                  | 20,057                   | 381,642      |
| 2015 <sup>4</sup>  | 208,913                       | 124,103                  | 19,347                   | 352,363      |
| 2016 <sup>4</sup>  | 202,312                       | 124,484                  | 19,869                   | 346,664      |
| 2017 <sup>4</sup>  | 164,790                       | 130,070                  | 18,811                   | 313,671      |
| 2018 <sup>4</sup>  | 154,660                       | 124,638                  | 20,024                   | 299,322      |
| 2019 <sup>4</sup>  | 204,309                       | 143,185                  | 20,646                   | 368,141      |

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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.

<sup>1</sup> Beginning in 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, annuities certain, lottery payouts, structured settlements, and income payment options.

<sup>4</sup> 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.

Premiums are net of reinsurance business and fluctuate with reinsurance activities as well as sale changes. Please see Chapter 6 for reinsurance business.

Table 8.5

**Annuity Reserves, by Year**

| <b>Year</b> | <b>Reserves<br/>(millions)</b> | <b>Year</b>       | <b>Reserves<br/>(millions)</b> |
|-------------|--------------------------------|-------------------|--------------------------------|
| 1960        | \$18,850                       | 1998              | \$1,608,494                    |
| 1965        | 27,350                         | 1999              | 1,780,699                      |
| 1970        | 41,175                         | 2000              | 1,819,680                      |
| 1975        | 72,210                         | 2001 <sup>1</sup> | 1,585,008                      |
| 1980        | 166,850                        | 2002 <sup>1</sup> | 1,619,075                      |
| 1981        | 193,210                        | 2003 <sup>1</sup> | 1,899,994                      |
| 1982        | 233,790                        | 2004 <sup>1</sup> | 2,105,882                      |
| 1983        | 269,425                        | 2005 <sup>1</sup> | 2,258,240                      |
| 1984        | 313,215                        | 2006 <sup>1</sup> | 2,415,158                      |
| 1985        | 373,475                        | 2007 <sup>1</sup> | 2,548,490                      |
| 1986        | 441,390                        | 2008 <sup>1</sup> | 2,223,441                      |
| 1987        | 495,420                        | 2009 <sup>1</sup> | 2,512,334                      |
| 1988        | 562,155                        | 2010 <sup>1</sup> | 2,739,686                      |
| 1989        | 624,290                        | 2011 <sup>1</sup> | 2,810,717                      |
| 1990        | 695,700                        | 2012 <sup>1</sup> | 3,003,685                      |
| 1991        | 745,950                        | 2013 <sup>1</sup> | 3,271,345                      |
| 1992        | 768,215                        | 2014 <sup>1</sup> | 3,385,586                      |
| 1993        | 825,375                        | 2015 <sup>1</sup> | 3,407,220                      |
| 1994        | 878,460                        | 2016 <sup>1</sup> | 3,556,845                      |
| 1995        | 972,560                        | 2017 <sup>1</sup> | 3,790,733                      |
| 1996        | 1,312,494                      | 2018 <sup>1</sup> | 3,647,244                      |
| 1997        | 1,454,962                      | 2019 <sup>1</sup> | 3,976,017                      |

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<sup>1</sup>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.

