Revisiting My Suggestion about How to Avoid Problems Associated with Life Annuities

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An annuity is a series of payments. In a life annuity, the payments are contingent on the survival of the annuitant. In an annuity certain, the payments are not contingent on the survival of the annuitant.

I do not have any particular concerns about annuities certain. Over the years, however, I have expressed serious concerns about life annuities from the consumer's point of view. In the August 2012 and November 2012 issues of *The Insurance Forum*, I offered a suggestion on how consumers may avoid the problems associated with life annuities. I was disappointed by the lack of response to the suggestion, and I revisit the suggestion here.

My Concerns about Life Annuities

The buyer of a life annuity purchases insurance protection against living too long. One major concern is that it is impossible--without making crucial assumptions that are likely to be unreliable--to measure the price of the protection from the consumer's point of view. In other words, the consumer in effect has to buy insurance protection with an unknown price.

Another major concern is what happens upon the death of the annuitant. In a straight life annuity, in which there are no further payments after the death of the annuitant, the annuitant's survivors receive nothing. In a life annuity with ten years certain, the survivors would receive nothing if the annuitant dies after the ten-year period, and would receive only the payments remaining in the ten-year period if the annuitant dies during the ten-year period.

My Suggestion

The above concerns caused me, in my personal affairs, to search for an alternative that does not incorporate the life annuity concept. I decided to take systematic monthly withdrawals from my retirement accumulation. Each year I calculate the amount to be withdrawn during the year by following the procedure promulgated by the Internal Revenue Service in connection with required minimum distributions. I divide the yearly amount by 12 and round up slightly to determine the amount to be withdrawn each month. Because my retirement plan involves pre-tax dollars, I must meet the minimum distribution requirements. However, the system works just as well for retirement plans involving after-tax dollars.

I have used the system for 15 years, and it has been functioning extremely well--even through the financial crash of 2008. To put it simply, there is little if any likelihood that I will outlive the funds. Furthermore, upon my death it is likely there will be significant funds remaining to be divided among my surviving family members.

Conclusion

I do not know why I received no responses to my suggestion about using systematic monthly withdrawals instead of a life annuity. A possible reason is that following the suggestion does not provide agents' commissions. Yet the suggestion surely presents an opportunity for agents to provide a valuable service to their clients.

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