

If your assets are barely sufficient for your own needs, stiff your heirs. Put your money into an annuity.

As a purely financial matter, it's difficult to die at just the right time. Pop off unexpectedly young and you could rob your family of paychecks it was counting on. Hang on too long and you could exhaust your savings, impoverishing your family or consigning yourself to a decrepit retirement home.

One unexpected side effect of the recent financial crisis: a boom in sales of fixed immediate annuities, which dispense guaranteed income for life. Sales at New York Life, the largest issuer, hit \$425 million in the first quarter, up 82% from last year.

For most clients those new annuities are likely to be a good deal. A 65-year-old man who pays New York Life \$100,000 today will receive \$650 a month for life. That's equal to taking out 7.8% of the total each year, which is double what long-term Treasuries yield. (Because of her longer life expectancy, a woman of the same age would receive \$600, or 7.2%.) Wait longer to buy an annuity and the payout is, of course, higher (see table).

Part of the sales surge is because of the crash. Fixed-annuity buyers sailed peacefully through the recent market turmoil with monthly checks intact. Another factor: Many older Americans now find themselves planning for retirement with shrunken portfolios. Instead of living off dividends and leaving the principal to heirs, they need to consume the whole sum for their own needs.

Annuities offer the best way to lock in guaranteed lifetime income, argues Christopher Blunt, who runs New York Life's retirement division. Retirement income generated from a stock-and-bond portfolio requires keeping plenty of assets in reserve in case they're needed to fund a long life or contend with a nasty bear market. Blunt's pitch: Get the same retirement income as you could from a stock-and-bond portfolio, with 25% to 40% less principal.

Annuities' ability to generate superior retirement income is conjured by pooling risk. The annuities transfer savings from people who don't need it (because they're dead) to those who do.

This ability to match assets to future liabilities sends academic hearts aflutter. Economists who study the retirement market have long been sold on the merits of annuities and frustrated by consumers' aversion to them. U.S. vendors sold a piddling \$6 billion worth of immediate fixed annuities last year. The 2008 figure will likely be around \$10 billion. This in a country with \$2.7 trillion tucked away in 401(k)s.

One explanation for poor sales is that immediate fixed annuities aren't very profitable for the salesperson. A 70-year-old client who plunks down \$500,000 for an annuity and cashes a \$3,600 monthly check probably doesn't need much else.

Another impediment to sales has been crummy marketing by insurers. Fixed immediate annuities have gotten a bad rap in part for sharing an association with their deferred-annuity cousins. These are complex vehicles that promise a tax deferral but subject buyers to a multiyear "accumulation phase," during which assets are subjected to all manner of surrender penalties, commissions, fees and insurance charges, before paying out a dime. Most are great deals for the sales reps and lousy ones for clients.

Unlike fee-laden deferred annuities, immediate ones are likely to be a square deal for buyers. The typical buyer receives a string of payments worth (at discounted present value) 95 cents for every premium dollar he pays in. The obvious reason for the efficiency in the pricing is that prices are easy to compare. Someone with \$1 million to put in gets quotes from several vendors and takes the best payout.

Insurers do the best they can to make the product more opaque and complicated. Responding to customers' fear that they'll get a really bad deal (by dying young and leaving heirs nothing), vendors offer such features as a guaranteed minimum payout. A 65-year-old man who buys an annuity with a "ten-year period certain" feature has the right to checks for ten years, even if his heirs are the ones to cash them. For this he cuts his annual payout from 7.8% to 7.5%. That might seem like a small price to pay, but the drop-off is so tiny only because the guarantee is unlikely to cost the insurer much. Almost all 65-year-olds live at least into their early seventies.

Assuming you're in good health and keep your product features simple, there aren't a lot of downsides to fixed immediate annuities. One to think about is the risk that the insurer will go bust in your lifetime. However, there are segregated asset pools as well as state-run guarantee funds to make a loss unlikely. In the bankruptcy of Executive Life, some annuity holders lost 20% of their payout. Try to buy from a company with a rating of double-a or better from A.M. Best. New York Life, tiaa and Northwestern Mutual qualify.

A bigger risk is inflation. New York Life offers a rider that increases payouts at a set rate of between 1% and 5% annually but is not pegged to actual price rises. More in keeping with the buy-it-and-forget-it philosophy are payouts linked to the Consumer Price Index, which are available from Lincoln Life Insurance and others. For a 65-year-old man an inflation-indexing feature would cut his initial annual payout from 8% to 5% of his original principal. If inflation averages 4%, the indexed payout would surpass the conventional one in year 12.

Do you want to protect a spouse? That will cost you. If our hypothetical 65-year-old man is married to a 60-year-old woman, he'll cut the annual payout to 6.3% if it has to last until they are both dead.

Immediate annuities aren't a great fit for everyone. If your annual retirement living expenses (including income taxes) come to less than 3% of your assets, you should be able to safely fund your lifestyle by owning a conservative mix of securities, without effectively handing over 7% to an insurer to cover your longevity risk. For everyone else the standard advice is to annuitize the portion of your nest egg you'll need to cover living expenses, including supplemental health insurance. The rest you can invest as you please.

One way or the other, an immediate annuity is an investment you're unlikely to regret buying. If it turns out that the insurer got the better deal, you won't be around to fret about it.

Income for life

Buy a fixed annuity for \$100,000 and what you get depends on your age and gender. Adding a guarantee of ten years of payments (even if you die tomorrow) is surprisingly cheap.

Buyer	Plain annuity		With 10-year guarantee		With Cash refund	
	Monthly check	Yield	Monthly check	Yield	Monthly check	Yield
65-year-old man	\$650	7.8%	\$629	7.5%	\$601	7.2%
65-year-old woman	600	7.2	592	7.1	571	6.9
70-year-old man	723	8.7	691	8.3	654	7.8
70-year-old woman	667	8.0	650	7.8	619	7.4
80-year-old man	1,026	12.3	858	10.3	836	10.0
80-year-old woman	960	11.5	818	9.8	785	9.4

Source: New York Life.