



For Immediate Release

Bequest Can Increase Substantially When an Immediate Annuity is Part of a Retirement Income Plan, Finds NAVA Analysis

The Unfortunate Reality for Many Retirees Is That Rather Than Leaving Money Behind for Their Children, They Need to Rely on Them for Financial Support

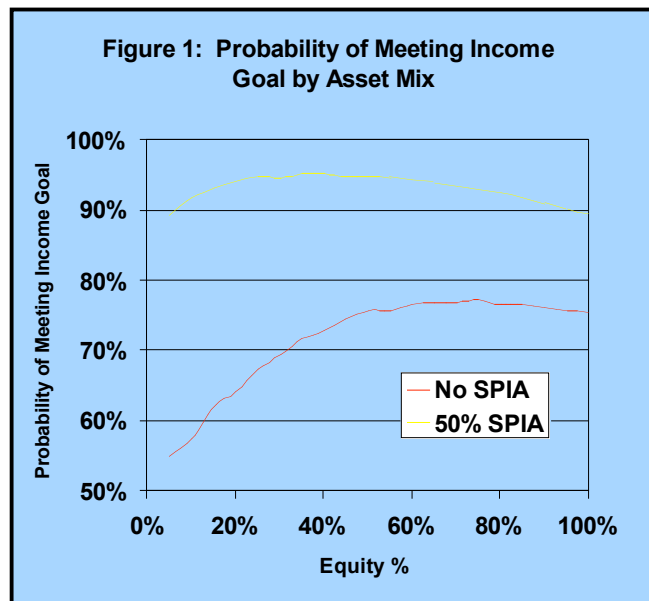
Reston, VA, [May 19, 2008] – In addition to living the good life, most retirees hope to leave money behind for their families after they have passed away. However, the reality in today’s challenging financial times is often the exact opposite, as some retirees are unexpectedly finding themselves in the position of having to rely on their children for some level of financial support – in effect, creating a “reverse inheritance” scenario.

The results of a new study released today by NAVA, the Association for Insured Retirement Solutions, reveal a solution to help address this problem. The “Immediate Annuities and Retirement Income Portfolios” study findings demonstrate that including a Single Premium Immediate Annuity (SPIA) in a retirement portfolio not only provides guaranteed retirement income for life, but it can actually increase the average bequest from retirees to their heirs by up to 41 percent as compared with a mutual fund-only portfolio in which individuals take systematic withdrawals during retirement.

The “Immediate Annuities and Retirement Income Portfolios” study findings were the result of an in-depth actuarial analysis conducted for NAVA by Milliman, Inc., a leading international actuarial consulting and research firm (www.milliman.com). The study analyzed several hypothetical case studies, including a middle-income couple, both age 65, with \$500,000 in available retirement assets and a total post-retirement income goal of \$50,000 per year that increases by 2.5 percent annually. \$30,000 of the couple’s income goal was assumed to be covered by Social Security, leaving an income gap of \$20,000 per year.

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Based on the analysis, if the couple invested half of its \$500,000 in mutual funds with a 75 percent equity, 25 percent bond mix, and the other half in a SPIA, they would increase the chances of meeting their retirement income goal from 77 percent to as high as 95 percent, based on an average life expectancy of 31 years in retirement and a 42 percent chance that at least one spouse would reach age 100 (See Figure 1). More importantly, the study revealed that the couple could have significantly more money available to leave behind to their family: \$1,338,000 compared with \$945,000.¹



“We were confident that moving some retirement assets from the mutual fund-only systematic withdrawal program into a SPIA would significantly reduce the chance of our hypothetical couple running out of money in retirement, but we were surprised to see that it also increased their average bequest,” said Tim Hill, consulting actuary and principal, Milliman, Inc. “It really is a matter of leveraging each product’s strengths. When it comes to providing income that can not be outlived, it is hard to beat a SPIA. Our analysis showed that the SPIA would cover the vast majority of the couple’s early year income and a significant piece of the later year income goal. Meanwhile, the remaining amount in the mutual funds is largely left to do what it does well, namely enable long-term growth, which provides for the increasing income goal, and ultimately, a bequest.”

¹ Average bequest over 10,000 stochastic trials.

An annuity is a long-term retirement vehicle offering a combination of insurance benefits and guaranteed lifetime income payments. A Single Premium Immediate Annuity is purchased with a single payment, and begins generating income payments shortly after purchase. SPIAs can be invaluable for many Americans who require guaranteed retirement income that cannot be outlived. A deferred annuity allows individuals to accumulate savings for retirement tax-deferred, giving them the option to convert their savings to guaranteed retirement income at a later date.

According to Kathleen Driscoll McKee, NAVA spokesperson, the results of this analysis should cause people to think about all annuities in an entirely new way. “While annuities are generally well-regarded for the guaranteed income they provide during retirement, they have been criticized at the same time, as some argue that they limit the money annuity holders have available to leave to their heirs,” said McKee. “The study turns the tables on this common criticism by demonstrating that incorporating annuity income into a retirement portfolio can actually free up more money for a bequest. This is great news for many retirees who may be worried about the possibility of having to rely on their children for financial support in retirement.”

“These findings should also be of tremendous interest to financial professionals looking for the best solutions to help clients meet their financial retirement goals,” continued McKee. “By effectively leveraging the strengths of both annuities and mutual funds, advisors can help clients maximize the potential of their retirement assets to cover their financial retirement needs today, as well as needs of their families in the future.”

The Milliman analysis used stochastic models for equity and bond returns to examine the impact of adding a SPIA to the popular income strategy of making systematic withdrawals from mutual funds. In addition to an analysis of a hypothetical middle-income couple, the study found similar results regarding the bequeath benefits for hypothetical case studies of different levels of available retirement assets – \$2.5 million and \$8 million – when it was assumed that the ratio of the retirement income to available retirement assets was the same.

The complete findings of the “Immediate Annuities and Retirement Income Portfolios” study

are available in a new white paper developed by Milliman, Inc. Interested media may download a copy on the NAVA Web site at: http://www.navanet.org/frames/res_dex.htm.

About Milliman, Inc.

Milliman, whose corporate offices are in Seattle, serves the full spectrum of business, financial, government, and union organizations. Founded in 1947 as Milliman & Robertson, the company has 48 offices in principal cities in the United States and worldwide. Milliman employs more than 2,000 people, including a professional staff of more than 900 qualified consultants and actuaries. The firm has consulting practices in employee benefits, healthcare, life insurance/financial services, and property and casualty insurance. For further information visit www.milliman.com.

About NAVA

NAVA, Inc., the Association for Insured Retirement Solutions, is a non-profit trade association located in suburban Washington, D.C. NAVA provides a variety of services to the industry including educational forums, research, and conferences aimed at furthering the development and understanding of fixed and variable annuities, income annuities, and variable life insurance. NAVA also maintains and supports an educational website for consumers at www.RetireOnYourTerms.com.

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