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Better Addressing the Boomers through Annuities and Life Insurance

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Forget the merits of the TARP program. Among the few — very few — things economists seem to agree on these days is that immediate fixed life annuities slowly are growing in popularity among Baby Boomers. Just, well, ask an economist.

One "rare point of virtually universal agreement" among economists is that immediate fixed life annuities are the superior financial instrument for establishing a base for paying out retirement income that doesn't shrink and is guaranteed to last the lifetime of the recipient, said Steven Weisbart, Ph.D, senior vice president and chief economist of the Insurance Information Institute. Furthermore, if specified, a spouse or partner is assured that income as well, he added.

While he noted that the number of Boomers currently using fixed life annuities remains exceedingly small, that appears to be changing, Weisbart added.

According to the U.S. Census Bureau, there are about 77 million Baby Boomers. The projected population of people 65 and older is 88.5 million in 2050, which would comprise 20 percent of the total population at that time.

One reason most Boomers generally aren't using an immediate (payout) annuity is they're still accumulating capital, he noted. Increasingly, however, they're buying deferred annuities that can become immediate annuities when the time comes for receiving retirement income, observed Weisbart.

Hugh Smart, assistant vice president and director of Advanced Markets at Columbus Life Insurance in Cincinnati, believes that Boomers will begin buying single premium immediate annuities more aggressively within the next 10 years as they approach retirement. Talk about annuities is rampant in the retirement income market, primarily because of the importance of a guaranteed income stream to at least help meet basic expenses, which can be realized with a single premium immediate annuity.

Additionally, with individuals living longer and underwriting standards easing somewhat, life insurance also has gained momentum among Boomers, noted Smart. Consequently, those who, a few years ago, were unable to secure life insurance due to major illness now may be able to do so if a number of years have passed since the time they had originally sought the insurance.

According to the MIB Group, which tracks the volume of applications for life insurance, for August, the MIB Life Index shows that ages 45-59 were up 0.4 percent, while the 60 and up group jumped 7.7 percent, year over year.

Generally, it appears that many Boomers aren't planning for longevity. After all, their parents, and certainly their grandparents, didn't, said Smart. Times have changed, however, given that at least one spouse in a couple, each aged 65, now is expected to live to 90, he continued. Boomers acknowledge their lack of enough insurance to meet their needs. "But getting them to do something about it is another thing," he adds. To an extent, some of the responsibility rests with agents: some are much more successful than others at persuading potential clients they need more insurance, commented Smart. Furthermore, many agents don't realize there are "a lot of new benefits and new products out there."

Funding Retirement

It's probably safe to say that the over-riding financial priority for everyone in this group is — or should be — funding retirement, said Jesse Slome, executive director of the American Association for Long Term Care Insurance.

"And as the last decade has demonstrated, it's likely that, in retirement, there will be several times when (Boomers) could face significant, unexpected, and potentially devastating financial setbacks because, in part, people are living longer, precipitating the potential for 'black swans' or unexpected events with dire consequences," Slome explains. If current trends continue, many will live to their late 80s and into their 90s, he noted; consequently, it's not "too alarmist to say that the potential to have one's retirement finances upset is high at a time when the retirees will be in no position to deal with it."

A new study by the Center for Retirement Research at Boston College points to a potential crisis as Americans struggle to meet health care costs. In over 300,000 simulations conducted by the Center for Retirement Research, the average lifetime health care expenditure for a typical married couple at the age of 65 is $197,000. This figure covers insurance premiums, out-of-pocket costs and home health costs. But when nursing home costs are included in the equation, that amount jumps to $260,000, with a 5 percent risk of exceeding $570,000.

"After a period of consuming a lot and not effectively planning for the future, Boomers are waking up to the fact that they have needs both for retirement and for the protection of their family's financial lives. It's eye opening," said Clark Troy, research director for the Aite Group, a research and advisory firm in Boston. Fundamentally, the anxieties stemming from those shortcomings bode well for the industry, he noted.

Newer Approaches

Perhaps, but Slome believes that many agents are relying more on their relatively dated training and are largely overlooking newer products and approaches, which could be crimping their effectiveness. "They say consumers aren't interested in buying long-term care insurance, but that couldn't be farther from the truth." In fact, even with a difficult economy, sales continue to rise, he pointed out.

Slome also said that agents should keep in mind that consumers — including Boomers — are increasingly investigating LTC insurance options online, perusing sites such as their LinkedIn page. "Your online presence today is your calling card."

According to a Pew Research Center study conducted last year, 76 percent of older Boomers (those aged 56-64) and 81 percent of younger Boomers (those aged 46-55) have experience using the Internet. In total, Boomers make up 33 percent of the total Internet using population. And finding health-related information is one of their prime reasons for going online.

However, Smart said comparison shopping for life insurance choices on the Internet is extremely difficult. "You (basically) can do comparison shopping on term products, but because life insurance and long-term care insurance are fully underwritten products, you really can't comparison shop. You don't know what kind of rating you're going to get from any insurance company."

Ultimately, he believes agents must work to overcome the reputation of life insurance in the eyes of many consumers, which has gotten "something of a bad rap." That can be achieved through strategies like training and helping agents with more interactive marketing materials as well as a better understanding of technology, said Smart. «

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