Security = Serenity

How The Swansons Solved My Annuity Puzzle

....a gift they call "very good retirement planning."

The Annuity Puzzle: Why economists love annuities and consumers do not

"People love Social Security and they love pensions, but now that they might have to build their own pension with an annuity, they seem to not want to do that as much as academics think they should."

– Wade Pfau, The American College of Financial Services

Economists say certain annuities could help retirees live securely, free to spend money without the fear of depleting their savings.

But consumers, by and large, aren't buying annuities for retirement.

For a lot of economists, this is puzzling. Researchers call this conundrum "the annuity puzzle," and they think retirees will be better off if they can solve it.

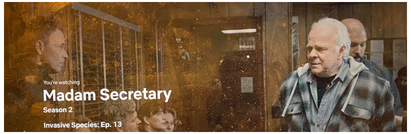
The annuity puzzle is the subject of a growing body of research by economists who have been searching for more than 40 years for ways to encourage more people to buy annuities. Solving the puzzle has taken on increasing urgency in recent years with the approach of what many see as a retirement crisis.

The Battle: *Control vs Return*

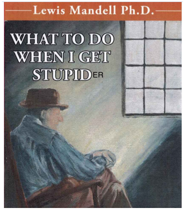
The Solution:

CSPIAs

Charitable Single Premium Immediate Annuities



Control **Dividends**
while avoiding Principal **Risk**
(Overconfidence, Romance Scams)



SPIA Charitable Gift Annuity Solves The Puzzle

On March 18th, invest **$10,000** in a SPIA CGA Smithsonian

2024 Tax Deduction: $3,964.60 (worth 37% **$1,466**)

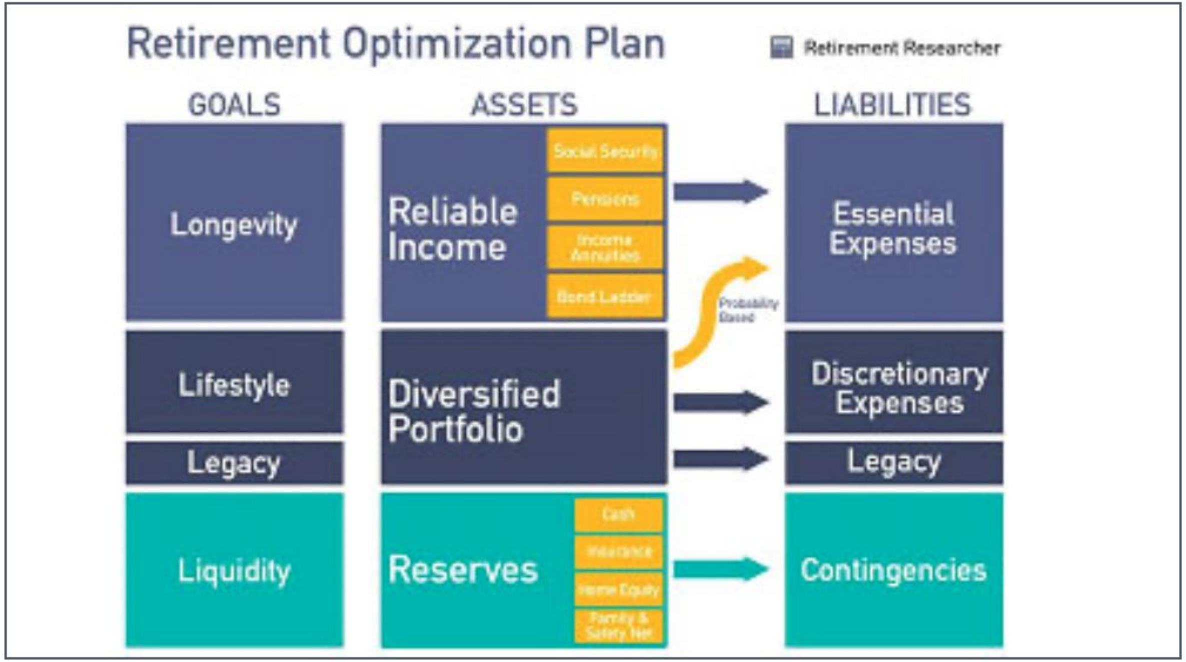
2025 Income: $580 **(~ half is taxable for first 19 years)**

Covers Annual Homeowners Insurance **(inflation)**

2026+ 50 years: Income $580 per year = **$29,000**

Principal safe from scammers

CGAs for Essential Expenses (Optional for Discretionary)



Essential:
Longevity,
LifestyleE, &
LegacyE

Discretionary:
LifestyleD,
LegacyD

Don’t gamble the rent money

Some Legacy goals met with CGAs funding Essential Expenses. Bequests to family & friends Discretionary.

Why Charitable SPIAs Solve the Puzzle

“Because it is a good investment”

Easy to understand

No fees

Tax advantaged

Supports cause you care about

Control dividends

Principal secure

“If I could live life over: invest twice as much in a Charitable SPIA** in lieu of **vanity philanthropy.”

Journey Inflection

Sisyphus to Skier

Accumulation to Decumulation

Longevity Risk

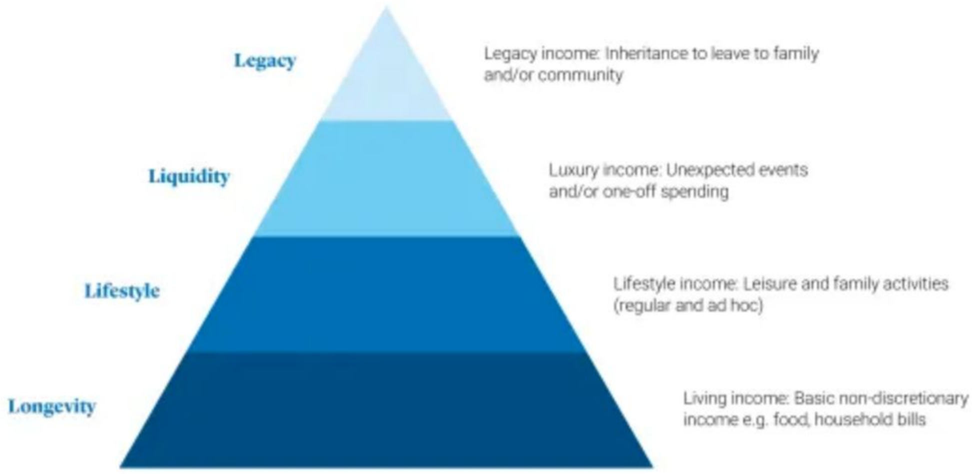
"[Life expectancy is] a massive source of uncertainty when it comes to financial planning. There's really no way to deal with it other than an annuity."

Benjamin H. Harris, Vice President of Economic Studies, The Brookings Institution

In the context of retirement, we would expect rational consumers to mitigate longevity risk—the risk posed by living longer than expected. Underlying this risk is the unavoidable fact that lifespans are inherently uncertain.

Essential (Fixed/Safe) and Discretionary (Flexible/Risk)

Key objectives in retirement



Source: The 4 L's of retirement income planning, Wade Pfau

Going at It Alone: ‘No Good Options’

In their Brookings report, Baily and Harris explain that the economic models of “rational human behavior” assume that people planning for retirement will buy annuities that give them regular, recurring income.

This would be the logical choice for someone who understands the consequences of exhausting their savings in later life, with nothing to fall back on.

“Someone at age 80, say, who runs out of money, would find it very hard to obtain a job to provide themselves with continued income. For those with health problems, it would be virtually impossible to take a job,” they wrote.

Emphasizing quality of life after retirement, Harris asserted that the alternative to an annuity is to “hoard the money and keep it in case you live into your late 90s because there’s a chance that many Americans will [live that long]. The problem with that is all the foregone spending that would make you happy in retirement. Hoarding your money and hoping you don’t live too long is a terrible way to retire.”

Reasons People Don’t Buy Annuities: Overconfidence Bias

The **overconfidence effect** is a well-established bias in which a person's subjective *confidence* in their judgments is reliably greater than the objective *accuracy* of those judgments, especially when confidence is relatively high.[1][2] Overconfidence is one example of a miscalibration of subjective probabilities. Throughout the research literature, overconfidence has been defined in three distinct ways: (1) *overestimation* of one's actual performance; (2) *overplacement* of one's performance relative to others; and (3) *overprecision* in expressing unwarranted certainty in the accuracy of one's beliefs.[3][4]

How to do it: SPIAs

Single Premium Immediate Annuity (SPIA)

JEWISH NATIONAL FUND
JNFUTURE ISRAEL

NATIONAL PARK SERVICE

NATIONAL PARK FOUNDATION

UNITED STATES HOLOCAUST MEMORIAL MUSEUM

WHYY

Smithsonian

ADL®
FIGHTING HATE FOR GOOD

What’s wrong with commercial annuities?

Bloomberg US Edition

• Live Now Markets Economics **Industries** Tech AI Politics Wealth Pursuits Opinion Businessweek Equality Green CityLab

We've updated the dispute procedures in our Terms of Service ("Terms"). By continuing to use the site, you accept and agree to these updated Terms.

Industries
Finance

Apollo Surges to Record High After Posting $1 Billion Profit

- Adjusted net income of $1.70 a share tops analysts' estimates
- Assets under management rose 20% to $617 billion from year ago

August 3, 2023

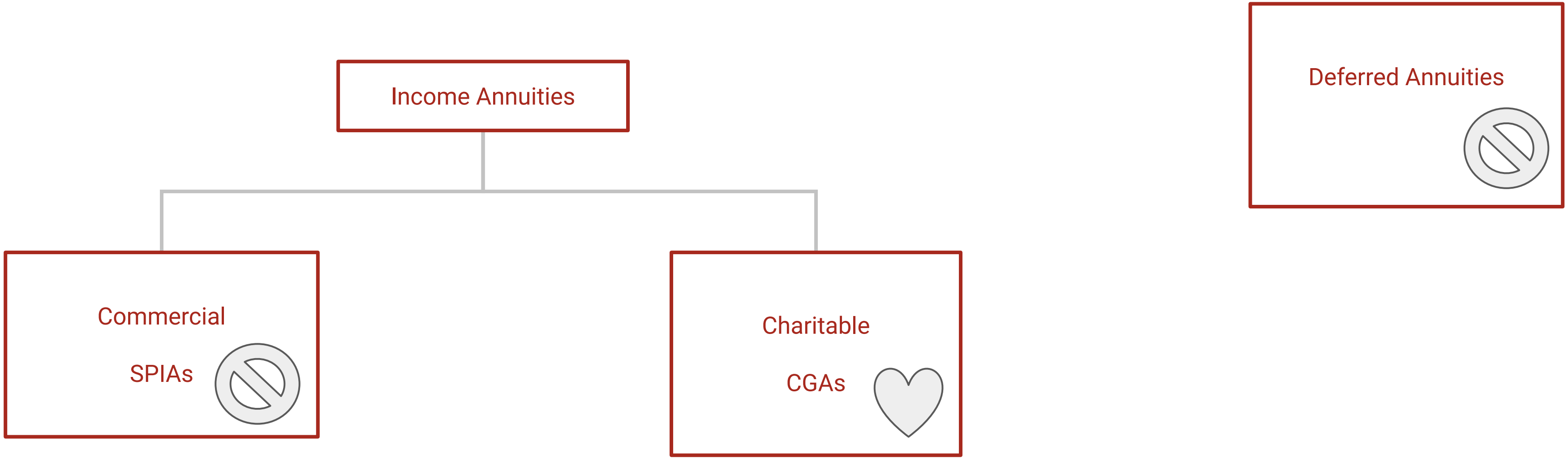
Apollo Global Management Inc. climbed to an all-time high Thursday after reporting a record profit as higher interest rates and strong inflows powered results **at its Athene annuities business.**

Fee-related earnings rose 30% to $442 million on higher management fees and gains in the capital solutions business, a key strategic growth area for the firm.The results reflect Apollo’s continuing tilt toward credit and insurance, **with Athene contributing almost 80% of adjusted net income in the second quarter.**

The firm ended the period with $617 billion of assets under management, a 20% increase from a year earlier. Athene’s gross inflows totaled $19 billion, driven by retail annuities and a pension risk transfer deal with AT&T Inc.

Apollo **expects more than $60 billion of organic inflows to Athene this year**, Rowan said Thursday on a call with analysts.

Baily, who was chairman of the Council of Economic Advisers under President Bill Clinton, said the reasons people don’t buy traditional annuities are clear, and they have a lot to do with **the way advisors frame these products.**


Income Annuities
Commercial
SPIAs
Charitable
CGAs
Deferred Annuities

Retirement

Routines

Affairs Settled

Bequest Motive: CGAs for Causes

Family & Friends: Discretionary

CGA Causes benefit: Essential

Paschenko:

University of Georgia

Paschenko identified other strong factors, including:

Minimum purchase requirements

In order to buy an annuity, consumers must spend thousands of dollars — in some cases at least $50,000 or $100,000. This, Paschenko said, is an amount that is out of reach for a lot of consumers.

$10k

Illiquidity of assets

People's wealth may not be liquid and available to purchase annuities because it's tied up in their homes.

Budget

Pre-annuitized wealth

People already have annuities from Social Security and pensions.