Annuities: making nest eggs last

Check out the payout sum and period, the underlying returns and the insurer’s track record before buying one, says CRYSTAL NEO

Don’t feel compelled to rush to buy annuities before the compulsory annuity scheme kicks in. There are some factors you should consider first – and yes, age is one of them.

You must understand what annuities are. They are contracts which provide periodic payments for an agreed-upon span of time. Among them are those that offer periodic payments for a fixed number of years. Then there are life annuities which make such payments for the duration of the annuitant’s life.

The key insurance role of annuities is to cover people against the risk of outliving their resources.

Associate professor Fong Wah Mun of the National University of Singapore Business School describes annuities as a retirement product. He says that while they are important financial planning tools, you should shun them if you are young.

And that’s why they are not so keen on annuities offered by insurers providing a life-time monthly annuity benefit which is lower than the monthly benefit offered by the CPF Board. The public may prefer a higher benefit as it allows for better quality of life and reduces the risk of outliving their resources. The monthly benefit offered by the CPF Board is usually sufficient for living expenses; and why they are not so keen on annuities is that they may live longer than expected.

A safety net

Prof Koh says that annuities have become more important in financial planning in recent years as people are living longer. Prof Koh feels that while annuities may not be the only protection in old age, they should not be the only protection in old age. So annuities are particularly important when buying participating annuities plans, the NTUC Income spokesman adds.

Both Prof Koh and Prof Fong agree that annuities have become more important in financial planning in recent years as people are living longer. Prof Koh says that annuities are particularly important when buying participating annuities plans, the NTUC Income spokesman adds.

According to an AIA spokesman, annuity takes years to be driven by compulsorily schemes and/or tax incentives in most countries. The lack of both here has meant that the take-up has been low.

In Singapore, the current Minimum Sum annuities offered by insurers provide a lifetime monthly annuity benefit which is lower than the monthly benefit offered by the CPF Board. The public may prefer a higher benefit as it allows for better quality of life and reduces the risk of outliving their resources. The monthly benefit offered by the CPF Board is usually sufficient for living expenses; and why they are not so keen on annuities is that they may live longer than expected.

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