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COLA vs. Level Payments In Immediate Annuities Which Is Better? To Increase Or Not To Increase? Only Time May Hold This Answer.

Inflation protection is often a topic that arises when discussing immediate annuities as an option for guaranteed lifetime income. The Cost Of Living Adjustment (COLA) is available from most major insurers offering the Single Premium Immediate Annuity (SPIA). The COLA can be set at issue and will increase the payment on an annual basis. COLAs can be credited as compounding or simple interest increases. The range of increase is 1.00% up to 10.00%. Most carriers offer a 3.00% maximum increase. Consumer Price Index (CPI) increases are also available from a select few carriers. The CPI premiums are close to the premiums required for a 3.00% to 4.00% COLA product.

Often the best clients for the COLA are the ones who want to start with a set income amount for planning purposes and have the COLA increase that amount annually. Clients looking to maximize income may be shocked at how much lower the starting payment with a COLA can be compared to the level payment option. The COLA is for inflation protection and it will be far down the read before those increases really start to show up.

When they do, it is really impressive! Question is, will your client want to wait for the rewards?

Sample Case - 3.00% Cola vs Level Payments
Male 67 | $1,000,000 Premium | Life With Cash Refund | A+ Carrier

- **The 3% COLA Numbers**
  Monthly income $3,754.03 ($45,048.36 After 1 year)

  After year 10 (age 77) income is $5,045.12 ($516,429.24 cumulative)

  After year 15 (age 82) income is $5,848.67 ($837,851.64 cumulative)

  After year 20 (age 87) income is $6,983.62 ($1,291,830.72 cumulative)
- **The Level Payment Numbers**
  Monthly income is $5,186.01 ($62,232.12 after 1 year)

  After year 10 (age 77) income is $5,186.01 ($622,321.20 cumulative)
  *(Level payments returned **$105,891.96 more than COLA**)*

  After year 15 (age 82) income is $5,186.01 ($933,481.80 cumulative)
  *(Level payments returned **$95,630.16 more than COLA**)*

  After year 20 (age 87) income is $5,186.01 ($1,270,420.80 cumulative)
  *(Level payments returned **$21,409.92 <u>LESS</u> than COLA**)*

  This is where the COLA will really take off; if the client is okay with waiting nearly 20 years to start seeing the benefits of the COLA's total return. In the example above, at age 96, the COLA will have returned $276,235 more than the level payment. The payment will have increased to $8,846.64 monthly. As you can see, the COLA is a true longevity play that can only be realized by time.

The idea is to not outlive your money.
Maximizing it at the same time does not hurt.

Jeff Affronti | Marketing, illustrating and building fixed annuities since 1995.

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