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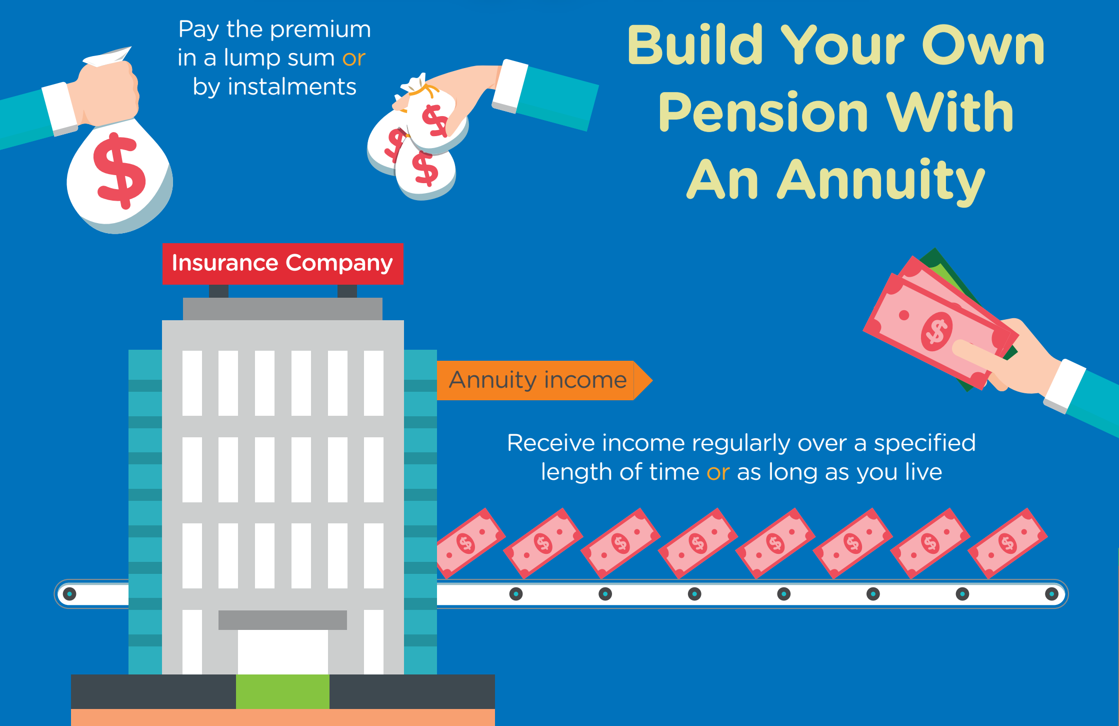
# Tips on purchasing annuity products





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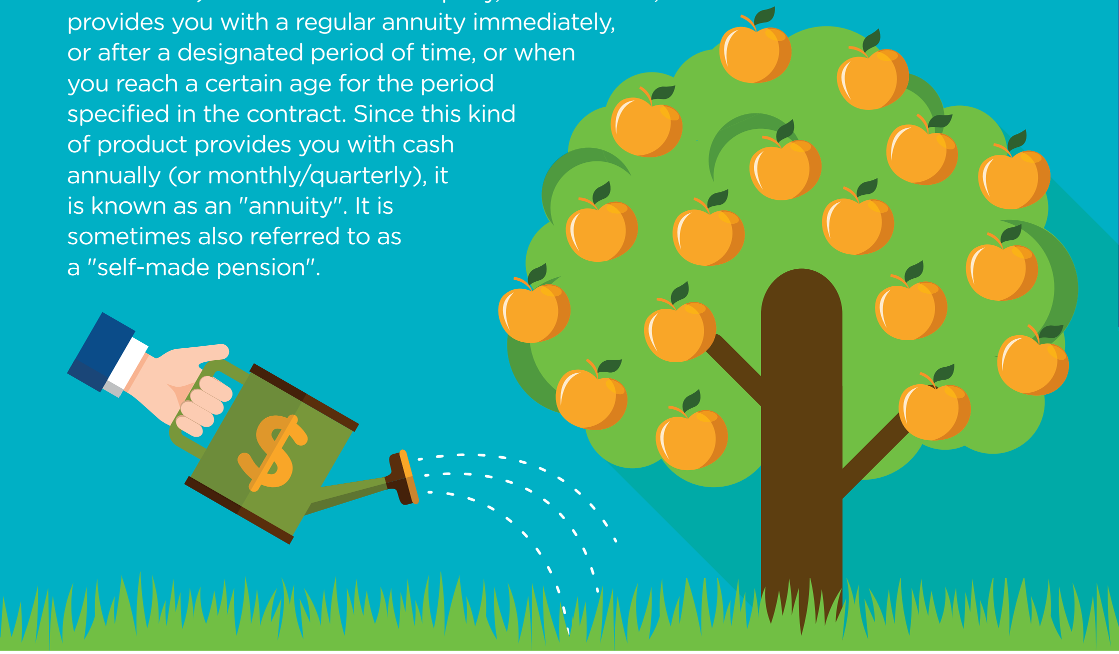
# What is an annuity?

**An annuity** is a long-term insurance product whose key purpose is to help you convert your savings into a steady stream of income over the long term. It helps you spend your retirement savings in a disciplined way to address the financial risks brought about by longevity.

The basic concept is fairly simple: you pay a premium (in a lump sum or by instalments) to an insurance company, which in turn, provides you with a regular annuity immediately, or after a designated period of time, or when you reach a certain age for the period specified in the contract. Since this kind of product provides you with cash annually (or monthly/quarterly), it is known as an "annuity". It is sometimes also referred to as a "self-made pension".



An annuity allows young people to start saving and planning for their retirement early and allows retirees to spend their retirement savings in a disciplined way. An annuity plan is a simple way to manage your retirement funds for peace of mind.

# Types of annuity products

## In terms of when the annuity income starts:

**Immediate annuity**

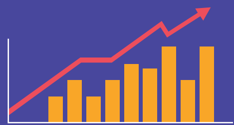
You start receiving annuity income once the premium has been paid up in a lump sum.

Once paid up

Start receiving

**Deferred annuity**

You contribute and accumulate capital over time to build up an income stream for retirement. The insurance company invests your contributions during the accumulation period and starts annuity payments to you after a certain period of time or at a specified age.



Accumulate capital

## In terms of how long the annuity income lasts:

**Life annuity**

Lifelong

This provides lifelong annuity income. But note that different insurance companies define "lifelong" differently. Certain companies define "lifelong" as paying you up to your 100th birthday, while other insurance companies may pay the annuity as long as you live.

**Annuity certain**

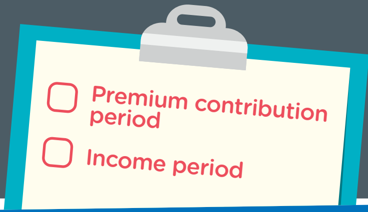
Specified period

This refers to an annuity contract that provides income over a specified period of time, such as 10 or 20 years.

For example, the public annuity scheme "HKMC Annuity Plan", spearheaded by the government, is an "immediate, life annuity" product, which offers monthly guaranteed annuity income for policyholders as long as they live. Annuity plans offered by private insurance companies, in contrast, are mostly in the form of a "deferred annuity certain" contract, though some insurance companies also offer life annuities.

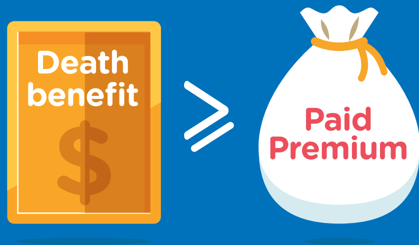
# Death benefit

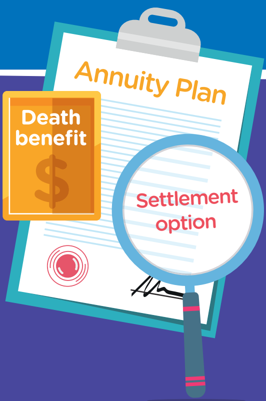
A death benefit is a payout to the beneficiary of the annuity contract when the annuitant passes away. The death benefit would be determined by the time of death, and whether the death occurred during the premium contribution period or the income period.




## Premium contribution period

In the case of the contribution period, the beneficiary will usually receive no less than the paid premium in full as the death benefit.




## Income period

In the case of the income period, different plans have different arrangements or options. For example, the beneficiary could receive a lump sum according to the death benefit value or cash value of the policy, or all the premium paid less the cumulative monthly annuity payments paid. But with some annuity policies, there is no remaining value when the annuitant passes away. In other words, there is no death benefit. This is called a pure annuity.

## After the income period or the guaranteed period

Generally, if the annuitant passes away after the end of the income period or the guaranteed period, there is no death benefit.

# Tips on purchasing annuity products

1

## Long-term insurance products


An annuity is a long-term insurance product; it is not a bank deposit, a savings plan, or an investment product. Therefore, it is inappropriate to make a direct comparison with investment tools such as stocks and bonds. Also, there is usually no remaining value at the end of the income period or guaranteed period of an annuity. If you want to leave an inheritance behind, you should make other plans.

2

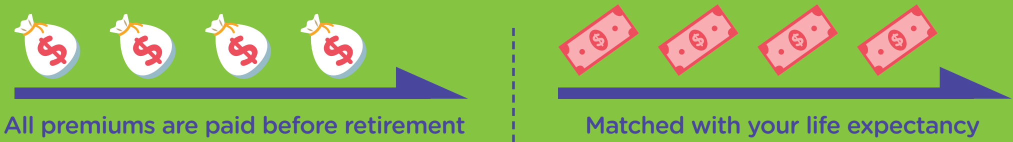
## Early surrender can incur a significant loss


If you surrender or terminate your annuity plan early, you may incur a significant financial loss, so consider your options carefully before purchasing an annuity. You should also consider your liquidity needs and be sure that you can afford to make your payments for the whole premium contribution period. Of course, you should also set aside sufficient cash for your daily and contingency expenses.

3

## Take note of the contribution period and income period

Make sure that all your annuity premiums are paid before retirement. When choosing the income period, make sure it matches your life expectancy. If the income period is too short, your annuity plan may fail to achieve the purpose of addressing the financial risks of longevity.

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## Compare plans


Annuities are long-term products and may involve large sums of money, so make a comprehensive comparison before purchasing an annuity plan. Since there are many different annuity products available in the market, make sure you compare apples to apples to ensure you select the most suitable one for your needs. For example, the features of deferred and immediate products differ quite a lot, so they should not be compared side by side.

## 5 Three focus points in annuity proposals

The main purpose of an annuity plan is to help you convert your savings into a steady stream of income over the long term to address the financial risks brought about by longevity. Therefore, when examining an annuity proposal, you should focus on the premiums, annuity income and income period.


## 6 Differentiate between guaranteed and non-guaranteed income

Annuity income from annuities offered by the private sector usually comprises both "guaranteed" and "non-guaranteed" income. As the name suggests, non-guaranteed income is not guaranteed, and is often affected by factors such as the insurance company's investment returns, claims and profits. In an extreme case, the non-guaranteed part could be zero. For a product that aims to provide retirement protection, the guaranteed part is especially important. While the non-guaranteed amount may seem appealing, your overall retirement income could be significantly less than expected if this part is not paid.


## 7 Internal rate of return (IRR) matters most

Don't be distracted by the total accumulated income, dividends, rewards, etc., because they do not reflect the time factor. The return of annuity products should be evaluated and compared when the premiums are paid over the full contribution period, and all annuity income is converted into an annualised calculation (i.e. the "IRR").


## 8 Make your annuity part of your retirement wealth portfolio

Different financial products serve different purposes and have different features. Annuities are not growth-oriented, nor are they flexible. They help you spend your retirement savings in a disciplined way and address the financial risks brought about by increasing life expectancy. Consider making an annuity plan part of your retirement portfolio and supplementing it with other financial products to address your overall retirement objectives.


Please visit the Annuity Sitelet and Tips on Buying Insurance Leaflet, jointly developed by the Chin Family (www.thechinfamily.hk) and the Insurance Authority (www.ia.org.hk), for more information.