Lecture

INSTITUTE OF ACTUARIAL
& QUANTITATIVE STUDIES

Class: MSc

Subject :

Subject Code:

Chapter: Unit 2 Chapter 1

Chapter Name: Annuity

Today's Agenda

1. Introduction
   1. Features
   2. Who should consider buying an annuity?
   3. Benefits
   4. Types
   5. Factors affecting premiums
   6. Documents required to purchase plans
   7. Riders
   8. Claim process
   9. Documents required for claim process

1 Introduction

An annuity is a long-term investment agreement between an insurance company and an individual in which the individual makes a payments in series or in a lump sum, in exchange for which he gets periodic disbursements or income.

1.1 Features

1. Series of payments
2. Starts with a lump sum
3. Deferred or Immediate
4. Famous as a Pension Product
5. Fixed Annuity or Variable

Annuity

1.2 Who should consider buying an annuity?

- An annuity could be suitable for someone who is approaching retirement and needs or wants to create an additional stream of income. Annuities can provide lifetime income, and depending on the type of annuity, you may also get some protection against market volatility.
- Annuities could also be a good fit if you have money to spare for premiums and you understand the fees you'll pay.
- If you're able to max out your 401(k) at work and you're maxing out an IRA each year it might be wise to consider buying an annuity.

1.3 Benefits

- Safe & Reliable Income
- Wealth Boosters
- Loyalty Additions
- Automated Portfolio Strategies
- Tax-Savings U/S 80C & 10(10D)
- High Liquidity

1.4 Types of Annuity

There are two types of annuities:

1. Immediate annuity plans
There is no accumulation phase and the plan starts working right from the vesting phase. It is purchased with a lump sum and the annuity payment starts immediately either for a limited tenure or lifetime.

2. Deferred annuity
These are the pension plans in which the annuity starts after a certain date.

1.4 Types of Annuity

The annuities may also vary basis the type of payout you receive:

Fixed Annuity
Simply put, an annuity plan that gives you a guaranteed amount throughout the tenure of the policy is a fixed annuity plan. This guaranteed amount is pre-decided at the time of purchase of the policy. The amount paid to you is guaranteed. It does not get affected by market fluctuations.

Variable Annuity
In a variable annuity plan, your premiums are invested in instruments, such as mutual funds or equities. Payouts from such plans depend on the performance of the fund your money is invested in. If the fund performs well, you will get greater returns and vice versa.

Accumulation phase- It is the phase when you start investing and accumulating cash and commences from the date when you first time pay premium.
Vesting phase- It is the date from which you will start getting the policy benefits in the form of pension.

1.5 Factors affecting premiums

- Age
- Gender
- Health
- Type of annuity
- Payment options
- Interest rates
- Insurer's expenses

1.6 Documents Required to Purchase Plans

For age proof (any one)	For ID proof (any one)	For address proof (any one)	For income proof (any one)
• Birth certificate • High school mark sheet • Driving licence • Passport	• Driving licence • PAN card • Aadhar card • Voter ID card • Passport	• Utility bills • Ration card • Aadhar card • Voter ID card • Passport • Driving licence	• Bank statement • Salary slip • Copy of ITR Return

1.7 Riders

1. Disability income rider
2. Impaired risk rider
3. Long-term care rider

https://www.annuity.org/annuities/riders/#:~:text=An%20annuity%20rider%20is%20a,expensive%20your%20annuity%20will%20be.

1.8 Claim Process

The amount one has invested in an annuity keeps on earning interest till the policyholder/owner withdraws it or is used to give payouts. Since this is not an insurance plan, the claim process is also not the same.

- On the event of death of the owner of the annuity, the nominee is required to inform the insurance company about the same as soon as possible
- Fill out the forms that the insurance company will send you as it may differ from provider to provider
- Submit the documents asked by the company in order to process the claim
- Select the payment option, lump-sum or instalments

1.9 Documents Required for Claim Process

Here are the common documents required for hassle-free and timely claim process:

- Claim form
- Death certificate
- ID proof of the owner and nominee(s)
- Any other document asked by the insurance company