What are your Annuity options on Retirement?

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Summary: On retirement, most retirement plans allow you to withdraw a part of the accumulated corpus, while the remaining will need to be used to purchase an annuity plan from an insurance company. There are various options to choose from while determining your annuity payments. It can either be a life annuity, annuity guaranteed for a certain period, include your spouse to receive annuity payments after your death and opt for a return of the purchase price to your nominee on your death. You should choose a plan which best suits your financial requirements, the level of financial independence of your spouse and your nominee's needs.

There are different avenues you can use for planning your retirement. Many of these options, like pension plans and NPS allow you to withdraw a part of your accumulated corpus on retirement in the form of a lumpsum amount. The remaining amount (usually two thirds of the accumulated corpus) will need to be used to purchase an annuity plan from some insurer. Let's understand more about this aspect in this article.

When you retire, it is logical that your regular income has fallen by a great deal, since you do not have a monthly salary coming in. Government employees get pension, which serves like a monthly income after retirement. Even if you are not a Government employee, you can get a monthly pension by purchasing an annuity plan from insurers. This is usually called an Immediate Annuity Plan, wherein the annuities start flowing to the annuitant immediately and there is no deferment. In exchange for the annuity payments, the annuitant will have to pay a lumpsum initially, which is in effect the purchase price for the annuity plan.

Now there are different options for the annuity payment. The names and terminologies of these payment options can vary from one insurance company to another; but the working of the scheme is more or less the same across companies. Let's look at the popular payment options of the Immediate Annuity Plans:

- *Life Annuity:* The annuitant receives annuity payments throughout his life. The payment stops on his death.
- *Guaranteed Annuity for a fixed period:* Under this option, the annuity amount to be paid is guaranteed for a certain number of years, say 5,10,15 or 20 years. If the annuitant dies in this period, then his nominee will get the annuity during the remaining period. If the annuitant survives the period, he continues to get this annuity for as long as he is alive.
- *Return of Purchase Price:* This is something like including a death benefit in the plan. This means the annuitant receives the annuity till he is alive. On his death, the nominee will receive the purchase price in the form of a lumpsum.
- *Without Return of Purchase Price:* Under this option, the annuitant receives the annuity till he is alive. On his death, the annuity payment ceases and there is no return of purchase price.

- *Joint Life, Last Survivor:* This is an option to include the spouse in the plan. Here, the annuitant receives the annuity till he is alive. On his death, the spouse will receive the annuity payment. Note that if the spouse named in the policy dies before the annuitant or is no longer the legal spouse of the annuitant at the time of his death, then the benefits will not be paid. The annuity amount to be paid to the spouse is usually equal to the original annuity amount received by the annuitant. However, some companies like LIC have an option for a reduced payment to the spouse, i.e.: 50% of the original annuity amount. This option also has the two variants - With Return of Purchase Price and Without Return of Purchase Price. In the former variant, after the death of the spouse, the nominee will get the purchase price back. In the second variant, the annuity payments stop when the spouse dies and nothing is paid to the nominee.

Let's understand the various options with an example. Suppose you have a corpus of say, Rs. 50 lakhs. A 58 year old male will receive the following as monthly pension under the various options:

Options	**Monthly Pension**
Without Return of Purchase Price	Rs. 37,644
With Return of Purchase Price	Rs. 29,428
Guaranteed for 5 Years	Rs. 37,315
Guaranteed for 10 Years	Rs. 36,595
Guaranteed for 15 Years	Rs. 35,693
Joint Life (Age of Spouse 56 years)	Rs. 30,224
Joint Life Last Survivor with Return of Purchase Price (Age of Spouse 56 years)	Rs. 29,241

The above calculations are based on annuity rates given by ICICI Prudential Life Insurance which are prevalent on 10th April 2014. The annuities will vary depending on a change in the above details.

Almost all insurers give the option of choosing different frequencies for the payment - monthly, quarterly, half yearly or yearly modes. Note that the annuity payments are determined based on the annuity rates applicable at the time of purchasing the annuity from the insurer. In the case of joint life policies, the rates will depend on the difference in age between the annuitant and the spouse. To maximise your inflow during retirement period, we recommend you to opt for 'Without return of purchase price'.

To get an idea about the annuity rates and calculate your annuities for a given purchase price, you can access online annuity calculators present in leading insurance company websites. As an example, you can click here to calculate your annuities in ICICI Prudential.