

23 August 2017

# NTUC Income Guaranteed Life Annuity

## 1. Introduction

A consumer sent me the benefit illustration and asked if it offers a good return.

## 2. Benefit Illustration

The consumer, age 65 male, invests a single premium of \$300,000 and receives a guaranteed monthly annuity of \$1,181.40 and a non-guaranteed addition that depends on the investment return of the life insurance fund.

Here are the relevant information extracted from the Benefit Illustration.

POLICY	DEFERRED TERM (YEARS)	SINGLE PREMIUM	MONTHLY ANNUITY	QUARTERLY ANNUITY	HALF-YEARLY ANNUITY	ANNUAL ANNUITY
Guaranteed Life Annuity (GAK4) (Pay by Cash)	0	\$300,000.00	\$1,181.40	\$3,558.95	\$7,191.75	\$14,767.50

BENEFIT ILLUSTRATION FOR BASIC PLAN						
MONTHLY ANNUITY						
YEAR/AGE	TOTAL PREMIUM PAID TO DATE (S\$)	GUAR- ANTEED (S\$)	PROJECTED AT 3.25% INVESTMENT RETURN		PROJECTED AT 4.75% INVESTMENT RETURN	
			NON-GUAR- ANTEE (S\$)	TOTAL (S\$)	NON-GUAR- ANTEE (S\$)	TOTAL (S\$)
1/65	300,000.00	1,181.40	0.00	1,181.40	0.00	1,181.40
2/66	300,000.00	1,181.40	5.90	1,187.30	23.65	1,205.05
3/67	300,000.00	1,181.40	11.85	1,193.25	47.75	1,229.15
4/68	300,000.00	1,181.40	17.80	1,199.20	72.35	1,253.75
5/69	300,000.00	1,181.40	23.80	1,205.20	97.45	1,278.85
6/70	300,000.00	1,181.40	29.85	1,211.25	123.05	1,304.45
7/71	300,000.00	1,181.40	35.90	1,217.30	149.15	1,330.55
8/72	300,000.00	1,181.40	42.00	1,223.40	175.75	1,357.15
9/73	300,000.00	1,181.40	48.10	1,229.50	202.90	1,384.30
10/74	300,000.00	1,181.40	54.25	1,235.65	230.60	1,412.00
15/79	300,000.00	1,181.40	85.45	1,266.85	377.55	1,558.95
20/84	300,000.00	1,181.40	117.45	1,298.85	539.85	1,721.25
25/89	300,000.00	1,181.40	150.30	1,331.70	719.00	1,900.40
30/94	300,000.00	1,181.40	183.95	1,365.35	916.80	2,098.20

quotation is for illustrative purposes only and is not a contract of assurance. The precise terms and conditions of this assurance plan are specified in the policy contract.

### Death Benefit

In the event of death, the single premium less the total annuity payments will be paid provided the total annuity payments made is less than the single premium.

### Surrender Value

In the event of surrender, 90% of the single premium less total annuity payments will be paid.

### Recent Investment Performance

The following chart summarizes the investment performance and investment expense ratio of the Life Participating Fund for the last 3 years:

Year	Investment Yield	Investment Expense Ratio
2014	5.45%	0.160%
2015	1.79%	0.146%
2016	4.49%	0.171%

The investment expense ratio is the ratio of the total investment expenses incurred by the Life Participating Fund during the year to the average total assets of the Life Participating Fund over the year.

Please note that the past investment performance is not necessarily indicative of future performance of the Life Participating Fund.

### External Fund Managers

Assets in the Life Participating Fund are partly managed by Income and partly managed by external fund managers. Details of these external fund managers are shown in Appendix A.

### **How much Are You Paying for Distribution Costs?**

This table shows the total costs of distribution that Income expects to incur in relation to your policy, including the cost of any financial advice provided to you.

#### **PROJECTION OF TOTAL DISTRIBUTION COST**

YEAR/AGE	TOTAL PREMIUM PAID TO DATE (S\$)	TOTAL DISTRIBUTION COST TO DATE (S\$)
1/65	300,000.00	6,120.00
2/66	300,000.00	6,120.00
3/67	300,000.00	6,120.00
4/68	300,000.00	6,120.00

The distribution cost is taken away from the premium and is used to pay commission to the agent and other marketing expenses.

### **3. My analysis**

It is extremely difficult to measure the return on a life annuity as it depends on how long the annuitant survives to collect the payment.

At the age of 65, one can estimate the average life expectancy to be another 20 to 25 years.

The average yield on the life assurance fund, net of investment expenses, is 3.75% over the past three years. The return on the life annuity has to be lower than 3.75% after deducting expenses.

I estimate the return to be an average of 2.5% p.a. It will be lower for an annuitant who dies within the next 25 years and higher for an annuitant who lives beyond 25 years.

If you have no other option to invest your money, this would be a reasonable type of investment. But I would prefer to keep my money in the CPF to earn 4% p.a.

Tan Kin Lian