Insurance MATTERS...

by Irene Jarosewich

What did Babe Ruth, Ben Franklin and Beethoven have in common?

The "Sultan of Swat," Babe Ruth, is famous for having said, "I may take risks in life, but I never risk my money." However, the rest of the quote, often left unfinished, was "I use annuities and never have to worry."

Benjamin Franklin left two annuities to his heirs and was a lifelong proponent of annuities to provide income to widows and orphans.

Instead of a salary from traditional employment, Ludwig von Beethoven's patrons provided him with a lifetime annuity, believing that "only a man free of worries" would be able to compose such outstanding works and chose "to provide for his relevant necessities" in order to not inhibit Beethoven's powerful genius.

So the answer to the question of what did the three great men have in common is: all three owned annuities.

Ruth bought his first annuity in 1923 through Equitable Life Insurance Company (now AXA Equitable). His insurance agent recorded that the baseball star purchased between $35,000 and $50,000 worth of annuities each year in the years between 1923 and 1929 – more than half his salary, annually. The star understood that, as soon as he stopped playing baseball, he would not have either an income or a pension. When Ruth finally did retire in 1935, during the height of the Great Depression, he and his wife Clara lived comfortably on the income he received in monthly payments from his annuities. Ruth is credited by historians of the insurance industry for being an important figure in promoting the security of annuities as a source of retirement income in America.

More than 100 years before Babe Ruth, another great American understood the value of the consistent stream of income provided by annuities. In his will, Franklin, who died in 1790, left annuities not only to his personal heirs, but also to the city of Boston, the place of his birth, as well as to Philadelphia, the city where he lived most his life. Credited with the maxim "A penny saved is a penny earned," Franklin left a considerable amount of his considerable personal wealth to the two municipalities he loved in order to help aid widows and orphans who lived there. Boston continued to receive annual payments from the annuity established by Franklin for 200 years! In 1991, on the 200th anniversary of Franklin's annuity left to the city, Boston decided to finally cash out.

In 1808 Beethoven was offered a lucrative position by Napoleon's brother, King Jerome Bonaparte, on the condition that he move to Westphalia, a principality in central Germany. Vienna social luminaries desperately wanted to keep the talented Beethoven in Austria. In early 1809, two princes and an archduke guaranteed Beethoven a generous annuity to simply compose and perform, no other work required, on the condition that he stay in Vienna. Several years later, during a time of economic downturn, one of the annuity's guarantors, claiming financial hardship, wanted to stop paying a portion of the annuity. Beethoven sued, and the Austrian courts upheld Beethoven's right to continue to receive annuity payments, placing the burden of managing such payments back on the guarantor.

While annuities do not need to be used exclusively for retirement, as in the examples of Beethoven and Franklin, the reality today is that most annuities in the United States are established precisely for that purpose. Unlike 30 or 40 years ago, few private-sector employers now provide a guaranteed or defined benefits pension plan. Whereas most public sector employees still receive a monthly pension, in effect, an annuity provided by the government, employees who work in the private sector increasingly are being left on their own to devise their own retirement plans.

A combination of an employer-provided 401(k) fund and Social Security payments often serve as the basis for these personal plans. However, since 401(k) funds invest almost exclusively in the stock market, there is considerable risk of losing money, including principal, the original part of your salary invested in the fund. Furthermore, for those who plan to retire in more than 10 years, Social Security payments could very well be reduced. Therefore, more secure options for retirement income need to be considered.

Compared to the excitement in recent decades of go-go growth stocks, the more conservative, but stable, bread-and-butter annuity seemed boring and bland. Yet soon-to-be retirees, wary of the volatility of stocks and bonds, as well as the large tax-bite of low-interest investments such as CDs, are re-discovering the annuity.

The basic promise of an annuity for retirement is simple: you give your money to an insurance company and, in turn, you receive tax-deferred growth in the form of compound interest on your investment until you are ready to receive payments back. If you plan to receive the money fairly soon, this is known as an immediate annuity; if payments are expected to begin in the future, this is known as a deferred annuity. In either case, you have the security of knowing that you will not lose your principal. The tax-advantages of the annuity mean your investment will grow more quickly than in a non-tax-advantaged investment. Best of all, you free yourself of some of the burden of managing your retirement income, passing along the hassle to professionals.

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