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(See Attached Charts)

**RETIREES FEAR INFLATION, BUT NEW STUDY SAYS  
INFLATION DURING RETIREMENT MAY BE EVEN HIGHER  
THAN EXPECTED, RESULTING IN FAR LESS PURCHASING  
POWER LONG TERM**

**768 retirement periods over past 94 years examined for inflation experience:**

**last 30-year period to experience 3% inflation or less began in 1938**

*Retirees Should Consider Income Annuities With Inflation Protection*

*To Preserve Purchasing Power*

**Washington, D.C.** Retirees who are using an inflation expectation of 3% -- a commonly used standard -- for their retirement income planning, may find they have far less purchasing power than they anticipated. To help avoid falling purchasing power, annuities with inflation protection may offer high enough cash returns long term to offset the effects of inflation.

These are among the findings in a new study of historical inflation in the United States that reveals that two-thirds of all retirement periods since 1915 have experienced inflation above 3%, the inflation assumption used in many retirement plans today. For almost half of all retirements in this period, inflation ran above 4%. In fact, the study notes, the last 30-year retirement period to experience 3% inflation or less began in 1938.

The 2009 Retirement Confidence Survey conducted by the Employee Benefit Research Institute (EBRI) and Matthew Greenwald & Associates notes that retirees cited inflation more than any other reason as a cause for their decline in confidence to live comfortably in retirement (the economy came in second).

The study, "Immediate Annuity: Fixed vs. Inflation-Protected, A Cost Comparison,"\* was conceived and conducted by Felix Schirripa, a pension actuary with a Web-based annuity site at [elmannuity.com](http://elmannuity.com). Schirripa compared annuities with and without an inflation rider on a pre-tax and post-tax basis under various assumptions. He says: "The difference between 3% inflation and 4% inflation sounds small but can compound over time to a very significant difference. After 15 years in retirement, for example, there is a 16% difference in purchasing power. After 20 years, it's 21%." He added: "The

combination of inflation history, current tax policy and current market conditions indicate that inflation-adjusted annuities may provide more value than an annuity without an inflation adjustment.

“While the value of a fixed annuity in retirement is widely recognized, the relative merits of an inflation rider on that annuity only recently are being acknowledged,” said Chris O’Flinn, the founder of [elmannuity.com](http://elmannuity.com). “Felix Schirripa’s study makes an important contribution to understanding how an inflation rider on a fixed annuity may create value.”

Schirripa says the immediate annuity without inflation protection is effective protection against both longevity risk and market risk for the assets allocated to it. But, he adds, purchasing an inflation rider with the annuity also protects against inflation, which can erode purchasing power as the annuitant ages. On day one of year one, the nominal and real purchasing power of the annuity income are the same, but erosion of purchasing power begins immediately. An inflation rider on a fixed immediate annuity can eliminate that erosion.

In the current environment, inflation-protected annuities typically have starting payments to the annuitant which are 25% lower than the comparable fixed annuity, *pre-tax*. However Schirripa shows that this first-year difference is much less on an *after-tax* basis (non-qualified purchases) and then shrinks as the inflation-protected annuity payments are increased by inflation.

For example: If the fixed annuity has monthly payments of \$1,000, the inflation-protected annuity could start with payments of \$750, both pre-tax, a 25% difference. Schirripa shows how the "after-tax" difference can be much less, as low as 17% depending on the annuitant's tax bracket and assuming the annuity is purchased with after-tax funds. He also gives examples of how long the difference lasts and how the future inflation increases eventually favor the inflation-protected annuity. In one case, assuming 4% inflation, the inflation-adjusted annuity pays 25% more income over a 25-year period.\*\*

Schirripa examines historical inflation, and compares fixed annuities with and without inflation riders on a pre-tax and after-tax basis and under various assumptions. He shows the forward-average annual inflation rate from 1915 through the end of 2008. He also demonstrates the effective average inflation during 768 30-year retirement periods over the 94 years to be above 3% for 64% of the periods, and above 4% for 45% of the periods. Additionally, the study explores the cost of adding inflation-protection riders and the role of taxes in the cost of adding an inflation rider to an immediate annuity purchased with non-qualified assets.

Schirripa concludes that in the current environment, an inflation-protected annuity appears to provide better relative value than the traditional fixed annuity, if purchased with non-qualified assets and assuming inflation runs at or above 4%. On the other hand, if the economy enters a prolonged period of low inflation in the future (inflation well below 5%/year), the conventional fixed annuity can be expected to show an income advantage (in terms of post-tax purchasing power).

"History indicates that inflation during a 30-year retirement period will run closer to 4% than 2% or even 3%. Although history does not predict what future inflation will be, it should influence our planning assumptions on inflation," says Schirripa.

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\* The study was released at the Employee Benefit Research Institute's (EBRI) policy forum on retirement income in Washington, D.C, earlier this month, and is featured on EBRI's Web site [http://www.ebri.org/pdf/programs/policyforums/CPI\\_Fixed\\_Annuities\\_Value.pdf](http://www.ebri.org/pdf/programs/policyforums/CPI_Fixed_Annuities_Value.pdf)

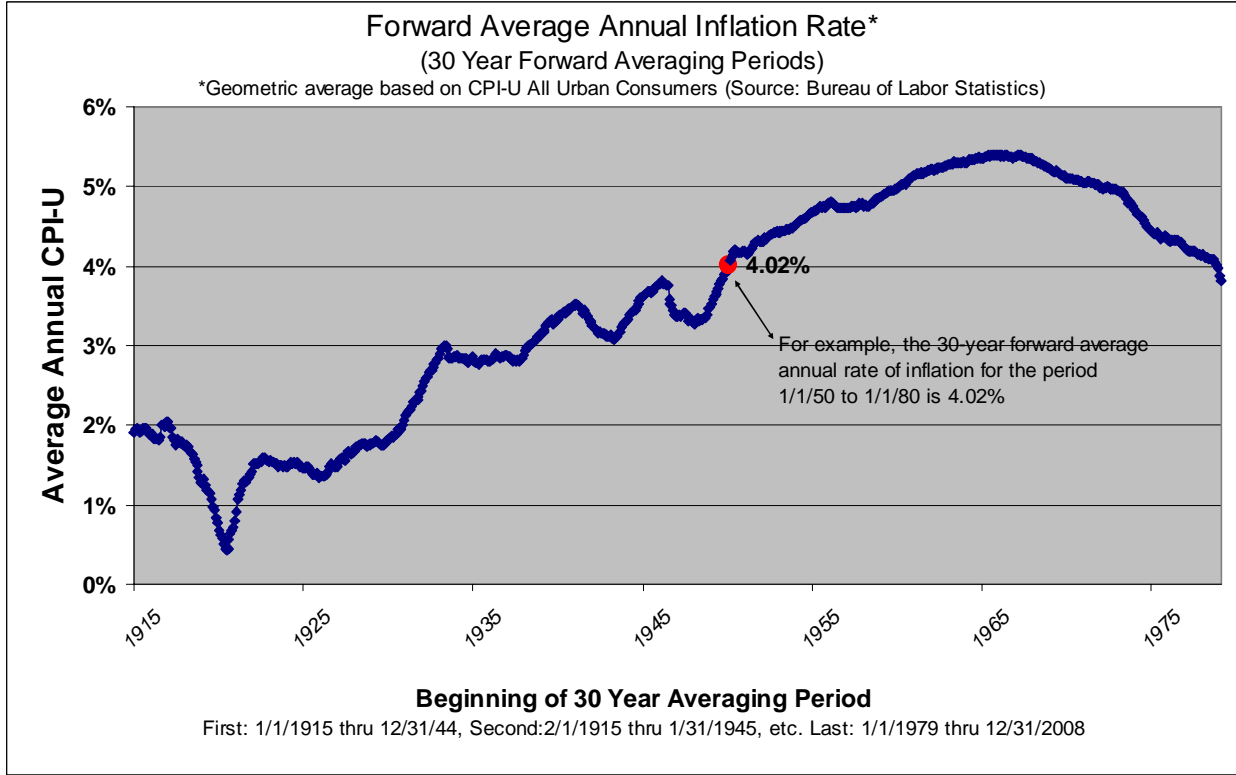
\*\* Schirripa offers a free interactive calculator that shows the year-by-year post-tax relationship. In the calculator, key assumptions can be changed by the user to estimate the impact using different issue ages, inflation rates, and annuity prices. Contact [Felix@elmincomegroup.com](mailto:Felix@elmincomegroup.com)

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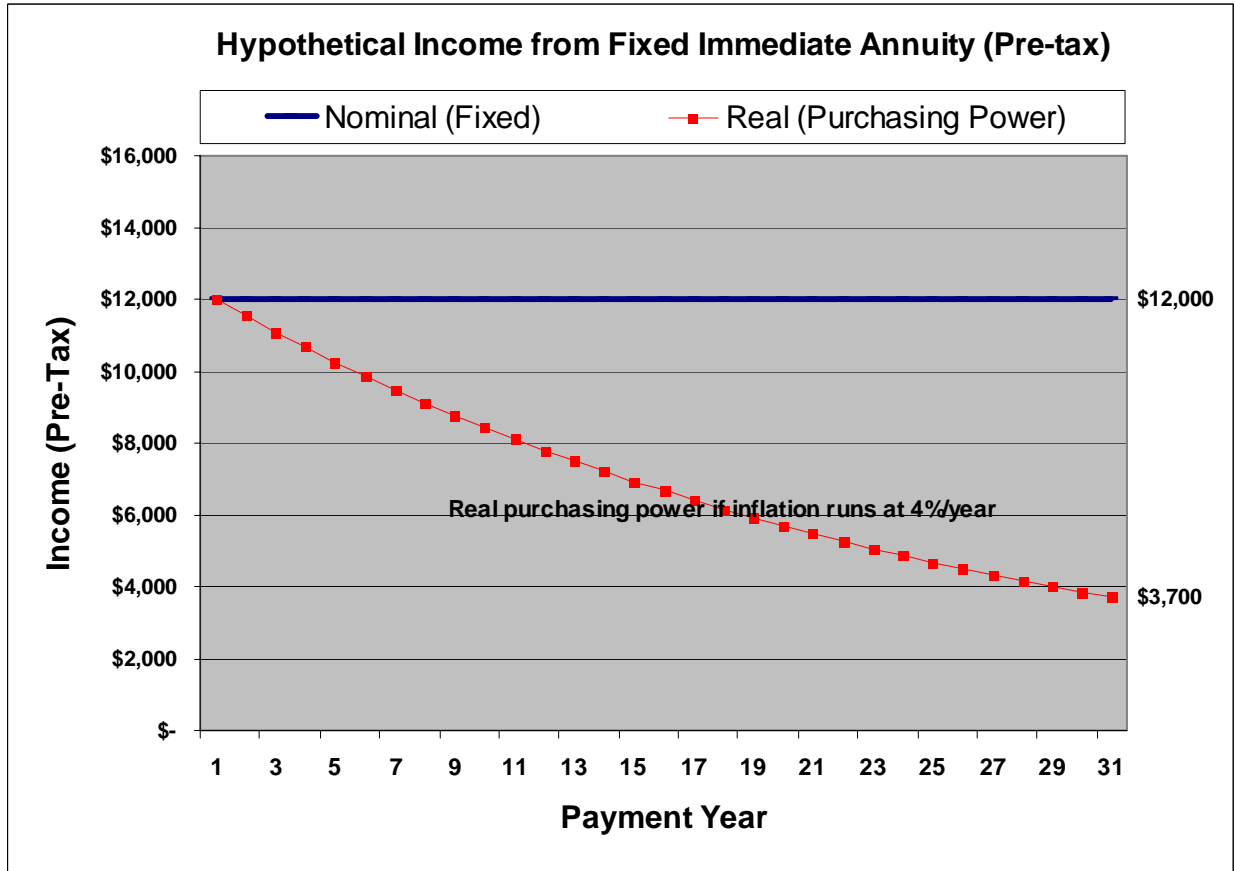
<http://www.elmannuity.com> is a Web site that explains fixed annuities, guides users through the purchase process and features competitive annuity products that are available through the insurer's call center. Unlike many other websites, there is no need to reveal personal contact or other information until the point at which the user wishes to purchase an annuity. Felix Schirripa is a Fellow of the Society of Actuaries.

**“Immediate Annuity: Fixed vs. Inflation Protected, A Cost Comparison”**  
A study by Felix Schirripa, elmannuity.com

**HISTORICAL INFLATION OVER 30-YEAR PERIODS**



# NOMINAL VS. REAL PURCHASING POWER



# PAYMENT STREAMS OF FIXED VS. INFLATION PROTECTED ANNUITIES

