Pick a Payout Using AI

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One of the best ways to never outlive your income is to annuitize and collect payments for life. This concept is dramatically underused and misunderstood by many who could benefit from not being able to outlive their income. It is generally very difficult to find someone who can explain the myriad of annuitization options available, assuming that someone is even qualified to speak to more than a "here is the menu, pick one" type of discussion. The purpose of this essay is not to explore underwriting for an annuitization, for example to potentially receive a rated or substandard payout, rather it is the suitability or "matching" the characteristics of payout to personal preferences. For this discussion, we will assume the AI/bot knows all the available payout options and payment amounts, with the ability to interject when the "cost" in terms of lower payments might become an issue.

The following is not meant to completely mimic an AI/bot session, rather to demonstrate how using an AI/bot in this situation would work. Sometimes AI/bots are named. This one is "Claire."

Jack has received a communication from the insurer that he has an amount to annuitize now at age 75 and, he wants to fully understand his options. He clicks to chat about his available options.

Claire responds with a few questions to establish Jack's identity and any other necessary authentication. Then on to the start of the main chat. "What can I help you with today?"

Jack enters, "What are my options for annuitization?"

Claire responds, "I can help you. You are married and your spouse is two years younger than you. It looks like if you annuitized today on a Joint Life Only basis your payment would be $1,000 a month. That is Joint Life Only with 100% to Survivor, paid as long as one of you is living."

Jack: "If we both die two years from now, what happens?"

Claire: "Payments would stop on the second death with no additional payments."

Jack: "I would lose almost the entire principal if that happened."

Claire: "Yes, if the second death was in two years you would only have received about 15% of the amount you paid for the annuitization. Would you like to see options that protect your principal?"

Jack: "Yes."

Claire: "There are two main ways to protect your principal, one is exact and the other may end up being more than the amount you paid for the annuitization. Exact principal protection is "Cash Refund" added as in "Joint Life and 100% to Survivor with Cash Refund." With Cash Refund the total amount you paid minus the sum of payments received is paid to a beneficiary immediately after the second death. The other method is to set up a period certain and, in your situation, you would want "20 years certain" added as in "Joint Life and 100% to Survivor with 20 years certain."

"With 20 years certain, if both of you die within 20 years the remaining payments will be paid to your beneficiary until the end of 20 years from the original annuitization. The total payments are at least as much as the amount you paid for the annuitization."

"Your payout would be $900 per month for Joint Life and 100% to Survivor with Cash Refund and $850 for Joint Life and 100% to Survivor with 20 Years Certain. As you may recall, your payment without any principal protection was $1,000 a month."

Jack: "20 Years Certain is just a continuation of payments and not a lump-sum. Is that correct?"

Claire: "Yes, in your example of the second death in two years, for 20 Years Certain there would be 18 years of payments to the beneficiary. For Cash Refund the beneficiary would receive 85% of the original amount as a lump-sum."

Jack: "We have a situation where the beneficiary may need to pay for at least the last survivor final expenses, so a lump-sum might be better. If we live long enough that there is no cash refund amount to receive, we can make other arrangements."

Claire: "Cash refund would provide a lump-sum on early death, where the 20 years certain will never pay a lump-sum."

Jack: "Is there anything else I can do to create a lump-sum payment?"

Claire: "Yes, you can take payments annually instead of monthly. For a Cash Refund your beneficiary would still receive a Cash Refund immediately after the second death. For 20 Years Certain the first payment to the beneficiary would be on average 6 months after the second death and not available in a timely manner for final expenses. The annual payments mean that as long as one of you is alive when the annual payment is made you would receive the payment. If the last death was during that same year, nothing would have to be paid back. We don't usually recommend people set up annual payments, but it is an option that is available, and it does create larger payments."

Jack: "Annual payments are easier to track, and we have plenty of other money coming in monthly, so annual sounds good. I remember when a relative died having to rush to turn off a monthly payment when the death was only a few days before the next payment.

Claire: "The annual payments are: For Joint Life and 100% to Survivor $11,500, For Joint Life and 100% to Survivor with Cash Refund $10,900, and for Joint Life and 100% to Survivor with 20 Years Certain $10,300. The Cash Refund will decrease each year and be zero after 18 years. There would be no certain payments after 20 years."

Jack: "I select annual payments of Joint Life and 100% to Survivor with Cash Refund."

Claire: "I will send in the fillable pdf form with that choice and then you can electronically sign and start the annuitization process. One last question, when do you want the first payment?"

Jack: "May the 4th each year."

Claire: "Great, the electronic delivery is to your email, should arrive momentarily, and you can sign there and start the annuitization. Is there anything else I can help you with?"

Jack: "Thanks, no, I think that is all I need."

In this fictional interaction, important are the paths taken and not taken. For example, Jack was very concerned about protecting the principal AND potentially providing a lump-sum to the beneficiary. This might not be a typical combination of concerns. Claire also knew it would take a 20 Year Certain Period to receive the principal and did not present shorter (or longer) certain periods. Some of the paths not taken were any fixed period only (non-life contingent), or any reduction in the benefit to the last survivor. There are also retirement money management approaches that work better if the payout is life only with no reduction for principal protection. Jack didn't mention anything in these directions, so Claire did not work through them. Presumably, the form he was electronically signing to start the annuitization did have other annuitization options listed with their payment amounts and he would need to pick the right one the chat mentioned. If the form caused more questions, then he would start another chat session with Claire and resolve any further questions before making a final choice.

In the existing world, this interaction might be with an agent or a home office customer service person, who likely would know the basic annuitization options available but would likely not know offhand all the payout amounts or to consider annual payments instead of monthly. In other words, Jack received much better customer service from Claire than he would have from any live person, even from someone looking at a screen with all the available options listed and amounts shown. In fact, in many real situations, Jack might feel pressure to "just pick one" on a relatively short phone call with customer service or an agent instead of understanding fully what his options are. That could mean picking the wrong annuitization option entirely or not considering all the relevant factors in making the best decision possible. In fact, in the current annuitization space there is a high percentage of people choosing fixed period (non-life contingent) who would likely be far better off ultimately if they had chosen a lifetime payment. They are not receiving useful information about annuitization options and making poor choices.

You might think every insurer would need to build its own version of Claire at great expense. That is not necessary. All an insurer needs to do is provide all the available annuitization options, payout amounts, and any other company limitations to Claire. Claire could be the annuitization option a specialist called for all these situations if the insurer has licensed Claire and fed her the appropriate information. Claire would have all the logic and description to help a person understand their options and what they mean and then could add in the specific information from the insurer so the person can make the best decision. Would someone out there build Claire?

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