Life and Health

Top Story: The deferred income annuity is a hybrid worth considering

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Might a product that offers a guaranteed future income stream, one that can be bought at a fraction of the cost of a single premium immediate annuity, appeal to some clients? If so, then the deferred income annuity might be an option.

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accumulation period, which is not typical of an income annuity; and second, there is a

is thus a happy cross between the single premium annuity and the conventional deferred annuity. The DIA encompasses so- products that commonly annuitize at age 85, and sometimes in earlier years.

As with a SPIA, the deferred income annuity secures, in exchange for a single premium, a guaranteed lifetime income stream that starts at a fixed date (within the first 13 months). But like a deferred annuity, the product also provides a cash value component that grows until the income start date. At a minimum, the cash accumulation period is more than 13 months beyond the date of initial deposit.

control it affords clients are three key attractions, sources say.

As with a SPIA, the income guarantee is unaffected by fluctuations in market interest rates. And like a SPIA, the contractually guaranteed rate of the DIA is based on current mortality tables and rates. The insurer can offer the guarantee because the date of annuitization is known in advance.

Contrast this guarantee with that offered on conventional deferred annuities. These products offer a guaranteed rate for an initial period, after which the client earns interest at the prevailing market rate or the minimum guaranteed crediting rate, which typically is 1.5% or 2%, observers say.

As for costs
required of a SPIA.

retirement years] with perhaps 15% to 20% of their invest

The difference between these amounts a liquid portion of the retirement portfolio over which the client retains control can be invested in stocks, mutual funds, bonds and other growth

concerned about withdrawals made against the growth portion. Without a DIA, sources say, such

dollar-
returns, which

one portion to purchase the DIA that will provide a guaranteed future income stream, and a second part to invest for

because the growth portion is no longer impacted by withdrawals fro

The ideal client is someone within five years of retirement age (before or after), according to

guaranteed income stream, pre- or post-retirees may not be able to meet income planning objectives if their portfolios take a hit due to a market slide.

Depending on their financial situation, clients might also consider incorporating a DIA into an annuity laddering strategy, experts say. Example: Pair the product with a variable annuity that offers a guaranteed minimum withdrawal benefit; then, when the VA account balance runs out after, say, 15 years in retirement, the DIA kicks in--and with potentially high, equity-like returns.

The longer the period of deferral, the higher the guaranteed payout rate will be, sources point out, citing mortality credits as a chief factor.

But sources caution that clients need to bear in mind the potential consequences of deferring annuitization for a long period. Should they die before payouts begin, the investment may be lost.

If the product is deemed suitable, says Lindsay, they can hedge against the risk of an early demise by purchasing an optional death benefit. While reducing the payout, the rider will assure that unpaid benefits will pass to surviving beneficiaries.

Also to be weighed, say Lindsay, are tax ramifications associated with required minimum distributions.