A Deferred Income Annuity – a Win-Win Solution

During the past 24 months, there has been significant growing interest in a specific form of annuity – a deferred income annuity. Second quarter 2013 LIMRA statistics show 151% growth rate of DIA sales in the last 12 months, the best is all categories.

A quick primer: a deferred income annuity—or DIA -- is a specialized form of annuity. The DIA requires single premium (most common) or repetitive premium payments (less common) into the contract. In exchange, the DIA contract provides a guaranteed income stream in the future that cannot be outlived.

The DIA promises a specific known-in-advance guaranteed income stream in the future in exchange for money paid in today.

Isn't this the same as any accumulation/deferred annuity? Or maybe an immediate annuity with a prolonged start date? The answer is No. The DIA is distinctly different from these widely available annuity types. The popular DIA:

- requires that annuitization occurs in the future (commonly 5, 7 or 10 years in the future),
- expects the future annuitization date is chosen at the time of new business,
- may or may not allow revision of the originally selected annuitization date,
- during the time period from contract issue and annuitization date, there may be limited or no ability to take out withdrawals,
- once annuitized, there may be some emergency withdrawals concept,
- may not have a customary death benefit for a beneficiary,
- does not allow loans.

The DIA promises a specific known-in-advance guaranteed income stream in the future in exchange for money paid in today. 'In the future' is commonly 5, 7 or 10 years. In exchange, the owner must generally agree to 'keep their hands off the asset' until the future date arrives.

The DIA fits right into the 'sweet spot' of near-retirees or retirees who have accumulated thousands of dollars within 401k, 403b or IRA accounts and are asking themselves 'now what do I do with this? ' Given unending volatility of the stock market and added uncertainty of government plans like Social Security, many late 50s/early 60s Baby Boomers are seeking some form of security 'for the future'. A solution that provides a guaranteed anchor income stream 'for the future' has huge and growing appeal.

There are administrative beauties in the DIA for the insurer:

- It is less complex to administer than a common accumulation annuity, less 'moving parts'.
- It is designed to restrict ready-made liquidity; withdrawals and loans are not the norm.
- Unlike a common accumulation annuity, it is designed not to require monitoring and micro-management by the owner of investment performance. Performance is guaranteed.

The DIA is designed to allow a sum of money to be put on 'auto-pilot' to grow until the annuitization date arrives. This reduces the insurer servicing noise and the expense required to administer the contract over time.

Everyone wins. Sometimes simpler is better. Product and software designers take note!

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