

Should Your Portfolio Include A Deferred Income Annuity?

Picture of Stephen Dybwad

(Stephen Dybwad name under picture)

“Layin’ it on the line”

“No matter how volatile the economy gets, or how unpredictable the stock market becomes, an annuity can provide stability and lifetime guaranteed income.” Stephen Dybwad

Also known as "longevity" annuities, deferred income annuities (DIAs) are risk transfer contracts. These contracts allow you to create a guaranteed future income stream many years before you retire. DIAs are often used to supplement existing qualified plans and pensions. They can help solve a person's concern about outliving their money in retirement.

When you purchase a DIA, you provide a lump-sum payment or series of payments to an insurance company in exchange for a contractually **guaranteed** lifetime income.

What are the advantages of a Deferred Income Annuity?

Stability and Safety of principle

Since the DIA is held in place by a legally binding contract, your principle is not affected by the political climate or stock market. An insurance company's claims-paying ability guarantees the funds in an annuity. DIAs are not subject to market volatility like other financial vehicles.

Higher Payouts Than Immediate Annuities

In exchange for holding the annuity longer, the annuity company rewards you with higher payouts than you would get from an immediate annuity.

Tax Advantages

Deferred annuities can be a way to defer taxes until much later in retirement. At that time, you will probably be in a lower tax bracket.

No management fees

Unlike most qualified and private pension plans, DIAs do not have account management or maintenance fees. 100% of your premiums go toward creating a stream of money you can't outlive.

Potential to customize

Deferred income annuity products often come with the ability to customize the contract according to your specific situation and needs. You might run across numerous names for these customized products, such as "Single Life," "Life and Period Certain," or "Joint Life."

These specialized annuities often provide lower payments in exchange for added features.

For example, if you want to provide guaranteed lifetime income for yourself and your significant other, a Joint and Survivor annuity may be the right choice.

Ordinarily, with most Deferred Income Annuities, the payments stop when you die. A "Refund" annuity ensures that if you die before your principle is paid out, an amount equal to the balance of your deposit goes to your named beneficiary.

With any customization, you should be aware that you will receive smaller payouts when the time comes to use your annuity.

Disadvantages of Deferred Income Annuities

Loss of liquidity.

DIAs have what are known as "surrender" charges that activate if you remove the money before the agreed-upon time. These penalties may be similar to those attached to qualified retirement accounts and other bank vehicles. While there are some products on the market offering limited liquidity options, you should always consider a Deferred Income Annuity

money as untouchable. Money set aside for income later in life, income that can never be outlived.

Loss of Investment Opportunities.

By holding your money for an extended period in a contract, you may not be able to use the funds for other kinds of investments. You might miss out on potential stock market gains or the chance to invest in a cash-flowing asset.

You cannot know your Return on Investment (ROI) until you die.

Buying an annuity is a bit like rolling the dice with an insurance company. Annuity issuers are banking on the fact that you won't outlive your life expectancy. If you live longer than expected, you should come out ahead in terms of the value received for the money invested. If you don't, then it might not have been a good strategy.

When thoroughly understood, deferred annuities can be an excellent way for some people to create private pension plans, supplement Social Security, or avoid paying more tax than is legally required.

DIA's may not be right for everyone, however. It is prudent to discuss all your options with a financial professional who understands the product and explains the pros and cons in line with your current situation and retirement goals.

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