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MANAGING YOUR FINANCES

Deferred Income Annuities Offer Predictability

BABY BOOMERS are on the lookout for lifetime income—and insurance companies are eager to oblige. The newest kid on the block with a growing fan base in both camps: deferred income annuities.

These products are like a cross between deferred variable annuities with guaranteed benefits and immediate annuities. Like the variable annuity, you don't tap your account for a number of years, allowing the money to grow. Like the immediate annuity, your monthly payout is fixed for life; the payout generally doesn't increase, as it can with variable annuities. These annuities "can create almost a pension-like income in retirement," says Jafor Iqbal, associate managing director of retirement research for consulting firm LIMRA.

Deferred income annuities have been wildly successful since they were introduced in 2011. New York Life has sold more than $1 billion in less than two years. Nine companies now offer these products, Iqbal says. Fidelity allows you to compare four versions (New York Life, MassMutual, Guardian and The Principal) on their Web site at **www.fidelity.com/annuities/deferred-fixed-annuities/compare**.

Only several years ago, the insurance industry was furiously marketing variable deferred annuities. The products promised a lifetime guarantee of 5% or 6% of the initial investment—or of the highest point the investment reached. But insurers found themselves on the hook for these guarantees they sold before the 2008 market downturn. Since then, companies have been reducing guarantees for variable deferred annuities.[1]

With a deferred income annuity, the longer you wait for the payouts, the higher they will be. For example, a 58-year-old man who invests $100,000 in New York Life's Guaranteed Future Income Annuity and defers payouts for nine years will get $9,200 in guaranteed income annually starting at age 67. If he waits 12 years, he'll receive $12,790. "A lot of my clients who are in their fifties and sixties are in pretty good health and have longevity in their family," says Robert Petrocelli Jr., a New York Life agent in New York City. He says most defer payouts from five to nine years.

If the annuity is in a 401(k), traditional IRA or another account subject to required minimum distributions, you may need to take withdrawals starting at 70½. If you have most of your plan invested in the annuity, make sure the payouts cover the RMD. And if you want to defer payouts beyond 70½, consider buying the annuity with money from a taxable account. To benefit from possible higher interest rates in the future, stagger your annuity purchases over several years.

Higher Payouts and Steady Income

You can't withdraw your lump sum from a deferred income annuity as you can with a variable annuity.[2] By giving up the flexibility, you can get a higher guaranteed payout. The 58-year-old man who defers for nine years can get more than 9% of his investment every year with the deferred income annuity. Most variable annuities do not guarantee that same payout, but they have the potential for growth. If you die before receiving payouts, the annuity usually provides a death benefit.

Brett Wollam, senior vice-president of Fidelity Investments Life Insurance Company, which offers both types of annuities, says: "If predictable income is the primary objective, the investor chooses the deferred income annuity. If the investor prefers more growth potential, the variable annuity with [guaranteed] benefits is more appealing."

Northwestern Mutual introduced a version last year that also pays dividends. Each year, you can either reinvest the dividends to buy larger future payouts or receive the dividends as additional payouts.[3]

Don Laipple, a manufacturing executive in Fort Wayne, Ind., bought the Northwestern Mutual annuity earlier this year, when he was 54. He expects to work another five to ten years. "For now, I'm not so concerned about income streams, and I'm having the dividends rolled back in," he says. "But I have the flexibility to change this to suit my needs." Laipple and his adviser, Randy Lehman, invested enough money in the annuity to fill the gap between his essential expenses in retirement and his guaranteed sources of income, including a pension and Social Security benefits. K

—**KIMBERLY LANKFORD**

[1]All guarantees are backed solely by the claims paying ability of the issuer. [2]Withdrawals from a variable annuity may be subject to withdrawal charges, ordinary income tax, and potentially a tax penalty for early withdrawal. [3]Northwestern Mutual's dividend paying deferred income annuity is the Portfolio Deferred Income Annuity. Dividends are not guaranteed.

Variable annuities are not guaranteed, and are subject to market risk, including loss of principle. No investment strategy can guarantee a better outcome over another investment strategy.