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Longevity Annuities Growing in Popularity

By Philip Moeller

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The risks of living longer is a problem of our times – stemming from significant longevity gains that could result in retirements lasting 30 years or even longer. Making sure you have enough money for those later years is challenging, especially since it's difficult to judge how long you'll live.

Beginning several years ago, MetLife and several other companies pioneered an annuity that addressed this problem. These offerings became known informally as longevity insurance.

Here's how they worked:

You plunked down the purchase price for the annuity, usually in a single payment. While the money may have been turned over when you were, say, in your 60s, the annuity payments wouldn't begin until much later, typically when you turned 85. The insurer thus had the use of your money for decades before any payments began. There also was a decent chance you wouldn't survive until age 85 or wouldn't live that much longer if you did. For these reasons, the amount of money you would receive in guaranteed annual annuity payments was attractive.

In 2009**,** MetLife said a 60-year-old male who spent $50,000 then on one of these deferred annuities would be guaranteed annual payments of more than $56,000 a year when he turned 85. For a 60-year-old woman, the same payment would yield a lifetime annual guarantee of about $44,500. The amount is lower because women typically live longer than men.

Of course, if you died before turning 85, a stripped-down longevity annuity contract – one with no guarantees – would provide your estate nothing. The insurance company would get to keep the money. Some longevity annuities offered more protection than this, but it was largely a no-frills product. As with any "sweetener" in an annuity contract, extra protection comes with a price, usually in the form of a lower annual payment guarantee.

The appeal of a longevity annuity is that you no longer need to worry about outliving your money. In fact, you could spend all your assets by the age of 85 without having to worry about keeping any assets in reserve. This certainty might improve your standard of living before you turn 85. When the annuity kicks in, its guaranteed income stream would provide you all the money you need, along with Social Security and any other guaranteed pensions designed to make payments for the rest of your life.

These products did not take off – for a bunch of reasons. People don't like forking over money to an insurance company with no guarantee of getting anything back. Secondly, while Americans are increasingly aware of longevity gains, their grasp of longevity risk is much weaker. And, of course, there was that nasty recession that turned everyone's attention to much more troubling present financial challenges.

In the past year or two, however, longevity insurance has undergone a significant change and has re-emerged as a product called deferred income annuities, or DIAs. At least 10 insurers offer them today, and more are joining in. A trade group, the Insured Retirement Institute, issued a report last month calling DIAs the fastest-growing type of annuity on the market.

"Since being introduced into the market several years ago, DIA sales have grown rapidly reaching estimated sales of $1 billion in 2012," the IRI report said. "IRI is predicting DIAs to be the fastest growing annuity product in 2013 and 2014 based on percentage increase."

These revamped DIAs offer an extensive array of product features. For example, you can elect to receive a return-of-premium death benefit and thus no longer need to risk losing your money if you die before the annuity begins making payments. Your payment stream can last for the duration of your life and the life of your spouse. Or it can last for a specified number of years, with proceeds going to your estate should you die before this "period certain," as it's called, expires.

Inflation protection is also available to maintain the effective buying power of future income payments. Furthermore, owners of DIAs can elect to add premiums to their product after they've bought it, although there are limits to when these additions may be made. There also may be an option to receive advance payments in certain types of specified emergency situations.

All these options may reduce your payment guarantees compared with a no-frills DIA. It's also essential to keep in mind that annuity payment guarantees are based on the financial ability of the issuing insurance company to honor its commitments. Because DIAs are based on future payments, it's crucial to look closely at the financial ratings of the insurers selling the products, which can be obtained from ratings firms, including A.M. Best, Moody's and Standard & Poor's.

LIMRA, an insurance industry research and marketing firm, provided U.S. News with a list of 10 DIAs that are currently sold by insurers:

1. American General Future Income Achiever

2. Guardian SecureFuture Income Annuity

3. The Hartford Income Annuity

4. Lincoln Deferred Income Solution

5. MetLife Longevity Guarantee

6. MassMutual RetireEase Choice

7. New York Life Guaranteed Future Income Annuity

8. Northwestern Mutual Select Portfolio DIA

9. Principal Deferred Income Annuity

10. Symetra Freedom Income