Longevity Insurance = Deferred Income Annuity

I was recently speaking to a client who has numerous relatives in their mid-90s to early 100s. We all pray for good health and long lives, but sometimes, we do not consider the potential financial ramifications of living so long. Many people buy **life insurance to provide funds for their loved ones in case they die prematurely**. Therefore, the opposite of life insurance is longevity insurance, which provides funds for you to spend in case you live too long. Various annuities can provide lifetime income, but an interesting type of longevity insurance is called a **Deferred Income Annuity (DIA)**. DIAs have been growing in popularity since they were first introduced in 2011.

Buying Peace of Mind

I recently obtained DIA quotes for a 66-year-old female client. She has enough money to be comfortable for the next 20-25 years, but what if she lives well into her 90s or beyond? Medical breakthroughs in the next 20 years make this more likely than many people realize. We looked at a plan where my client could put $100k into a deferred income annuity, which will not make any payments for 20 years. If she dies during the 20-year period, the money is gone. In other words, there is no account value or death benefit. So far this sounds lousy, right? Here's the good part of longevity insurance: After 20 years (at age 86), the annuity starts paying out almost $49k per year for the rest of her life. Knowing this income stream will kick in enables her to spend more during the "go go" years of retirement, without worrying about running out of money later.

Using Your IRA to Buy Longevity Insurance

Let's add one more wrinkle. Some people do not need (or want) the Required Minimum Distributions from their IRAs that they must take starting at age 70½. On July 1, 2014, the IRS and US Treasury put new regulations in place, which enable individuals to **use up to 25% of their qualified assets (IRAs and 401ks) up to a maximum of $125k to purchase qualified DIAs**. The funds in the DIA are exempt from required minimum distributions until the annuity starts its payout phase. This enables people to continue to defer taxes on IRA money and prepare for longer life expectancies. DIAs purchased with IRA funds are known as Qualified Longevity Annuity Contracts (QLAC).

Higher Payouts Than Immediate Annuities

Deferred Income Annuities offer significantly higher payouts than immediate annuities. Let me share an example I found on AnnuityFYI. A 60-year-old male could invest $100,000 in a DIA with payments that start at age 80. The DIA would pay out $42,000 per year, starting at age 80, for the rest of his life. This means he would receive $630,000 by age 95 from his original $100,000 investment.

Suppose he decided to put the $100,000 in a conservative investment earning 3% for the 20 years. The $100,000 would have grown to $180,000 after 20 years. If he invested $180,000 in an immediate annuity at age 80, his payment would only be about $18,000 per year. So, he receives an additional $270,000 in income by age 95 by using the DIA. (NOTE: The numbers used were accurate at the time the quotes were run for the AnnuityFYI article, but could have changed a bit since then).

Who are the Best Candidates for a Deferred Income Annuity?

A DIA can be a prudent investment for someone in great health who has a history of family longevity. You can purchase this type of longevity annuity at almost any age and select a deferral period based on your own needs. Most buyers of these annuities are in their mid-50s to mid-60s at the time of purchase. I would never envision investing more than a small amount of a person's overall net worth in this type of annuity due to the product's inflexible nature. However, for the right individual, this type of insurance can be very compelling.

NOTE: A deferred income annuity is based on the claims-paying ability of the insurer, so it is imperative to make sure that you only consider highly rated carriers.

For more on this topic, check out:

Understanding Deferred Income Annuities

THOUGHT THIS WAS INTERESTING

Kids' Brainpower Tied to Exercise, Sleep, and Limited Screen Time

Researchers tied three behaviors to higher scores on tests of mental ability in children: at least 60 minutes of physical activity a day, 9 to 11 hours of sleep a night, and no more than 2 hours a day of recreational screen time.

The new study, in Lancet Child & Adolescent Health, included 4,524 children ages 8 to 11 who were assessed with six standard tests that measure language skills, memory, planning ability, and speed at completing mental tasks.

Compared with those who met none of the three behavioral criteria, those who met all of them scored about 4 percent higher on the combined tests. Meeting the requirements for both screen time and sleep was associated with a 5.1 percent increase in scores compared with those who met neither. Only 5 percent of the children met all three criteria, and nearly 30 percent met none.

"It may be that screen time is affecting sleep," said the lead author, Jeremy J. Walsh, a postdoctoral fellow at the University of British Columbia. "Sleep is a critical behavior for shaping our brains. Kids need to be sleeping nine to 11 hours a night for their cognitive development to be optimal."

This story was written by Nicholas Bakalar and appeared in the NY Times on Oct. 1, 2018