New York Life offers dividend-paying income annuity and QLAC

By Editorial Staff *Fri, Sep 11, 2015*

The release didn't say whether or not the initial income payout from Mutual Income would be lower than the initial income payments of an annuity that does not offer dividends, as is the case for Northwestern Mutual's dividend-paying income annuity.

New York Life has launched a new income annuity, Mutual Income, that pays annual dividends in addition to immediate or deferred income. New York Life is the leading issuer of income annuities in the U.S.

Separately, the firm has issued its deferred income annuity as a QLAC, or qualifying longevity annuity contract, which IRA owners can use to purchase deferred income annuities with income start dates between ages 70½ and 85, within certain premium limits.

A release by the Fortune 100 mutual insurer said that Mutual Income is "designed to offer clients the opportunity to directly participate in the company's mutual structure. Separately, New York Life has expanded its income annuity options available on tax-qualified savings," the company said in a release this morning.

The initial press release didn't say whether or not the initial income payout from Mutual Income would be lower than the initial income payments of an annuity that does not offer dividends. Northwestern Mutual was the first mutual insurer to offer a dividend to deferred income annuity purchasers, but its dividend-paying contract has a much lower starting payment than a conventional income annuity from Northwestern Mutual.

A subsequent e-mail statement from New York Life to *RIJ* said, "Similar to NWM, the starting guarantee is lower than the conventional fully guaranteed version."

The initial release also did not say whether New York Life would allow contract owners to choose between taking the dividend in cash and applying it to the purchase of additional lifetime income, as Northwestern Mutual does.

A subsequent e-mail statement from New York Life to *RIJ* said, "Mutual Income also has the same flexibility for dividends to be taken in cash, reinvested to purchase additional lifetime income or a combination of both. However for qualified Future Mutual Income Annuity, any dividend payments received during deferral must be used to purchase additional income.

"In reality, for the DIA version, most policyholders will likely opt to reinvest the dividends during the deferral period (because they don't need it) and take it as cash once income begins. For the SPIA version, dividends will likely be taken as cash since they need income now."

According to the release, which arrived just as RIJ was about to publish today,

"Mutual Income works much like a traditional income annuity, where income can begin immediately or be deferred until a future start date of the client's choosing.

"As with other income annuities, a client invests a lump sum with an insurer, and receives an income stream that's guaranteed for life. But unlike traditional income annuities, the total income amount is not capped at the guarantee.

"As policy owners, New York Life's Mutual Income clients will also be eligible for annual dividends that can be used to increase their retirement income beyond the guaranteed amount."

New York Life managing director Dylan Huang said in a statement, "With the launch of Mutual Income, New York Life is, for the first time, expanding its dividend opportunity to our income annuity clients." Dividends can provide inflation protection as well, Huang added.

Regarding the QLAC, the release said:

Approximately 70% of purchasers of New York Life's deferred income annuity are using tax qualified retirement savings they already have in IRAs or 401(k)s—but until now, an individual's ability to decide when to start income has been limited by Required Minimum Distribution (RMD) rules, which generally require retirees to begin withdrawing from their qualified accounts by age 70½.

New York Life saw evidence of this limitation among its own customers: almost a third (31%) of purchasers using non-qualified money elect an income start date between the age of 70½ and 85, indicating a desire to defer income to a more advanced age.

We believe the purchase pattern that we see in our non-qualified sales indicates that there will be even more interest in deferred income annuities now that the income start date is permitted beyond the age of 70½. When pre-retirees have no restrictions around the income start date, they are using the flexibility that deferred income annuities afford to create retirement income tailored to their specific needs," added Mr. Huang. "Some will want to use other assets to fund the early years of their retirement, some will be looking to leverage the power of deferral to provide for expenses later in life and others may want to work into their 70s without having to tap into their retirement savings via an RMD. All can benefit from learning about the benefits of QLACs."