To woo younger clients, New York Life halves its minimum DIA premium

By Kerry Pechter *Mon, Oct 7, 2013*

The primary funding method for New York Life's book of GFIA business, which has an average initial premium of $100,000, is via a rollover from another qualified plan. So far, the primary funding method for GFIA policies with an initial premium of $5,000 is through IRA contributions.

New York Life, which sells 44% of the deferred income annuities (DIA) in the U.S., has decided to lower the minimum contribution to its flexible-premium DIA product, Guaranteed Future Income Annuity (GFIA), to 5,000 from $10,000, and to encourage workers in their late 30s and 40s to fund personal pensions with annual IRA contributions.

"The average customer purchasing the GFIA with an initial premium of $5,000 is 48 years old, ten years younger than the overall average GFIA customer," a New York Life release said. "The 48- and 58-year-old cohorts defer their income start dates to an average age of 66 and 67 respectively."

New York Life sparked a virtual doubling of the relatively tiny income annuity market—tiny compared to the market for deferred variable annuities with living benefits—by introducing the GFIA in mid-2011. Since then, about eight other life insurers have launched DIAs and it is reported that another half-dozen more intend to follow.

Northwestern Mutual Life is the second-best selling DIA provider, with roughly a quarter of the market.

So far DIA sales, like income annuity sales, are largely a phenomenon of the mutual life insurers and their captive agents. Opinions differ on whether the product, which is not an investment product, will be marketed as enthusiastically by publicly-held issuers or independent advisers and agents.

Until New York Life introduced the GFIA, DIAs were mainly marketed as pure "longevity insurance" with no cash value. In that form, they typically didn't pay out unless or until the annuitant reached age 85 (roughly the average life expectancy at age 65). They were positioned as the cheapest possible way to mitigate the financial risk of living to 90 or 100.

That product never got much traction in the market place, especially during the risk-on period of 2003-2008. In 2011, however, New York Life repositioned the DIA as a way for increasingly risk-off Boomers to buy a pension about 10 years in advance of retirement, and buy it at a discount, thanks to the delay between purchase and the income date. A predictable delay allows the issuer to invest farther out on the corporate bond yield curve, allows time for appreciation, and shortens the average payout period, all of which allows a higher income quote.

By all accounts, the peace of mind that the fixed product delivers helps drive sales. When New York Life subsequently wheeled out a less risk-averse version of the product, which offered upside potential through exposure to equities during the deferral period in exchange for a lower guaranteed minimum payout on the start date, interest was relatively tepid.

The primary funding method for New York Life's book of GFIA business, which has an average initial premium of $100,000, is via a rollover from another qualified plan. Only three percent of these policies have pre-set recurring contributions.

So far, the primary funding method for GFIA policies with an initial premium of $5,000 is through IRA contributions. One-fifth of these policies are funded with a pre-set, recurring annual contribution.

With the lower-premium product, New York Life is promoting a retirement income strategy based on 20 or 30 years of buying future income with IRA contributions or existing IRA assets, which, nationally, number in the trillions of dollars.

According to New York Life examples for life-with-cash-refund GFIA contracts:

- A 48-year-old male purchases a GFIA with a $5,000 IRA contribution and continues to contribute $5,000 every year until he retires at age 66. He will then receive $9,622 a year for the rest of his life.
- A 37-year-old male purchases a GFIA with a $5,000 IRA contribution and continues to contribute $5,000 annually. When he retires at age 66, he will receive $20,667 annually for the rest of his life.

Today, a man of 67 would have to pay about $308,000 to buy $21,000 in annual lifetime income with an installment refund. Were he to contribute $5,000 every year to a fund that earned an average of 4.3% a year, he would accumulate about $308,000 after 30 years.

The average purchaser of the GFIA today is age 58 and takes income nine years later, New York Life said. With a $100,000 contribution, such a contract owner would receive $11,427 a year for life, starting at age 67.

Some advisors have been comparing the payouts from DIAs with the payouts from fixed indexed annuities (FIAs) with guaranteed lifetime withdrawal benefits and generous deferral bonuses and find the minimum payouts to be similar after similar deferral periods. FIAs typically sell through the independent insurance agent channel, however. But they are spreading to the bank channel, where they could eventually compete head-to-head with DIAs.