Carrier Aims Annuity At Younger Buyers

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First Investors Life's introduction of a flexible pay deferred income annuity (DIA) represents a vote of confidence for a sliver of the annuity market, as life insurers look to attract younger buyers to a sizzling product category.

The flexible pay DIA gives investors more leeway in terms of paying into the annuity and complements First Investors Life's single pay DIA introduced last year.

"There's a greater appetite for this than we anticipated from across the board," Carol Springsteen, president of First Investors Life, told InsuranceNewsNet. "We underestimated people's needs for guarantees."

Shell-shocked by the 2008 financial crisis, investors have realized that devoting part of their portfolio to an income-generating vehicle makes good sense. "People need to put money somewhere where they know it's safe," Springsteen said.

She also said that the company is making the annuity available through registered representatives.

Flexible pay DIAs allow investors to fund the annuity by paying smaller amounts over longer time periods than they would if they paid for an annuity with a single premium payment. Flexible pay investors can even skip payments and resume them later.

Young investors who buy a house, for example, or who need funds to pay medical bills, can hold off paying into the annuity until they have means to do so, Springsteen said.

In the past, some investors have been skittish about DIAs, also referred to as longevity annuities, because investors lock up their funds until the deferral period ends. It's also possible that DIA buyers could die before they collect on the income from the annuity.

Springsteen said the company's single pay longevity annuity, which was launched last year, has done well as investors look to secure future income.

"We're still analyzing this and why it did well," she said. "We weren't quite sure just how single pay was going to be received."

Relatively well, evidently.

Sales of DIAs reached $670 million in the third quarter, an increase of 21 percent over the third quarter 2013, according to LIMRA Secure Retirement Institute.

Year-to-date DIA sales ending Sept. 30, 2014, hit the $2 billion mark, an increase of 35 percent over the year-ago period, LIMRA said.

While still small compared with overall annuity sales, within the fixed annuity segment, DIAs saw the highest increase over the first three months of 2014 compared with the first three months of 2013, LIMRA statistics also show.

Joseph Montminy, assistant vice president of LIMRA Secure Retirement Institute Annuity Research, said in an interview with InsuranceNewsNet magazine this month that he's optimistic about the growth of DIAs as consumers realize it's up to them — not their employers — to create their own pension plans.

"Once rates start to rise, I think those sales will grow," he told InsuranceNewsNet. "Our forecasts right now are we see those sales almost doubling by 2018, and that can be conservative."

Montminy also said that the average contract size for DIAs was $137,000 in 2013.

DIAs received a boost last summer when the Treasury Department announced it would allow people to shift a portion of their 401(k)s or individual retirement accounts (IRAs) into DIAs to give retirement investors a guaranteed-income option.

The department's changes alter the tax treatment of DIAs to exclude the value of DIAs from retirement account balances used to determine required minimum distributions.

Springsteen said Tuesday's DIA announcement had nothing to do with the Treasury giving DIAs the green light in qualified retirement plans.

Annuities have traditionally been targeted at investors approaching or in retirement, but as corporations exit the pension benefits business, Congress is looking for ways to offer guaranteed income options for working Americans.

Annuities meet that need, and annuity companies smell the potential for growth, particularly among younger investors who might not otherwise have heard of products designed specifically to guarantee income.

Longevity annuity payment options appeal to young workers looking to plan for the future as much as to company veterans working at companies with no retirement plan, Springsteen said.

They could also appeal equally to the 50 or 55-year-old manager who ignored saving for retirement, but can afford to stick his or her annual bonus into the annuity.

"The flexible pay product knows no boundary," Springsteen said.

As annuity carriers introduce DIAs product managers are bound to scrutinize the features closely and Springsteen also said the company was considering several of its annuity products for "future enhancements."