What is the difference between a longevity annuity and a deferred annuity?

A deferred annuity provides for an initial waiting period before the contract can be annuitized (usually between one and five years), and during that period the contract’s cash value generally remains liquid and available (albeit potentially subject to surrender charges). Beyond the initial waiting period the contract *may* be annuitized, though the choice remains in the hands of the annuity policyowner, at least until the contract’s maximum maturity age at which it must be annuitized.

**Planning Point: It is *always* the case that owners of deferred annuity contracts can annuitize after an initial waiting period (often one year, and rarely later than the fifth year). This is the case even when the contract’s *maturity date* is fixed at a date far into the future. John L. Olsen, CLU, ChFC, AEP.**

By contrast, a longevity annuity generally has no access to the funds during the deferral period, does not *allow* the contract to be annuitized until the owner reaches a certain age (usually around 85).

In other words, many taxpayers purchase traditional deferred annuity products with a view toward waiting until old age to begin annuity payouts, but they always have the option of beginning payouts at an earlier date. With a longevity annuity, there is generally no choice, but this also allows for larger payments for those who do survive to the starting period; as a result, for those who survive, longevity annuities typically provide for a larger payout (often, much larger) than traditional deferred annuity products.

**Planning Point: The chief benefit of a longevity annuity is *financial leverage*. The benefit payment may be far larger than can be *guaranteed*, at the time of purchase, by any other instrument, including a deferred annuity. As one might expect, the leverage in a longevity annuity providing no benefit unless the annuitant lives to the annuity starting date is substantially greater than that provided by a contract with a death benefit. John L. Olsen, CLU, ChFC, AEP.**

Most taxpayers who purchase longevity annuities do so in order to insure against the risk of outliving their traditional retirement assets. The longevity annuity, therefore, functions as a type of safety net for expenses incurred during advanced age. Where a deferred annuity contract may be more appropriately categorized as an investment product, the primary benefit of a longevity annuity is its insurance value.