What's a SPIA?

A single premium immediate annuity is a contract with an insurance company whereby:

1. You pay them a sum of money up front (known as a premium), and
2. They promise to pay you a certain amount of money periodically (monthly, for instance) for the rest of your life or for a specified period of time.

Dating back to the beginnings of annuity contracts, the single premium immediate annuity is the simplest, most basic of annuity products. Its uses are many, its drawbacks few.

Annuities are issued by insurance companies because they possess the actuarial expertise needed to calculate the life expectancy of annuity holders. In a single premium immediate annuity contract, the annuity holder makes one lump-sum payment to the insurance company, which agrees to provide income payments on a monthly, quarterly, semi-annual or annual basis. Thus, the first annuity distribution payment will come from one to twelve months after the contract is signed. Meanwhile, the insurance company invests the premium payment so as to generate sufficient income to fund the annuity distributions. The amount of the payments is calibrated to the life expectancy of the holder. The "single premium" designation distinguishes this annuity from its deferred-annuity relatives, which feature smaller, regular payments spread out over years. The word "immediate," although a very slight misnomer, is useful to distinguish it from its first cousin, the single premium deferred annuity.