News and Announcements

Income Is a Terrible Thing to Be Without ...

Central to retirement planning is guaranteeing an adequate income for as long as it may be needed ... for ourselves, and for those we love after we are gone. The key element of financial security is income. An important planning consideration is longevity risk, or basically outliving our money. The reversionary annuity is an under-utilized approach which addresses these issues head-on and in a highly efficient manner.

A reversionary annuity ("RA") is a unique form of life insurance designed to provide a guaranteed monthly income to a designated beneficiary at the death of the insured. The death benefit takes the form of a lifetime annuity, similar to a traditional insurance plan's settlement option. Unlike those plans, however, the RA is much more affordable.

Both the insured and an irrevocable beneficiary are underwritten for the policy. The premium is determined by the relative age and health status of both. The more medically impaired (and older relative to the insured) the beneficiary is, the lower the premium. Should the beneficiary predecease the insured, the policy terminates. In such a scenario, a return of premium rider returns all paid premiums.

The RA premium is much lower than traditional life insurance premiums largely because (i) the benefit is contingent on the beneficiary outliving the insured; (ii) the policy isn't funding cash value build-up; and (iii) the benefit takes the form of a guaranteed lifetime monthly income.

Studies have shown that the elderly often cannot afford the purchase of permanent life insurance products to the extent necessary to ensure loved ones adequate income in the event of their death. Choices for permanent spousal protection have traditionally been an annuity funded with practically 100-cent dollars, or some form of universal or whole life coverage having a benefit which is often lower, because of costs, than what is needed. If a lump sum benefit is needed for debt payment and the like, a separate life insurance policy can be purchased in addition to an RA policy. The survivor then gets the best of both worlds (efficiently): a lump sum for the payment of debt and a guaranteed monthly income benefit.

Providing a permanent solution to a permanent need, the RA's coverage never terminates — unlike term insurance. Like term life insurance, however, the RA is affordable. In fact, it will typically provide much more survivor income per premium dollar than any other permanent life insurance program.

To illustrate, a 64-year-old recent retiree has been given the option to convert his $250,000 group term life insurance to whole life coverage at an annual cost of $9,200. The lifetime monthly income that the $250,000 death benefit could provide his 64-year-old wife (via purchase of a single premium immediate annuity) is $1,382. The annual cost of an RA producing the same $1,382 monthly income is $2,675, saving the couple more than $6,500, or 71% of the $9,200 conversion premium!

In many instances, the use of the RA may help beneficiaries avoid problems unique to inheriting lump-sum benefits. These stressors include investment dilemmas, demands for assistance, requests for debt repayment, and other principal-consuming items, which inhibit the ability to provide income.

In retirement planning, the RA can provide the needed survivor income while permitting retirees to choose their pension's single life income. This maximizes retirement income — often considerably — even after deducting the outlay for the RA premium. Moreover, because an RA's monthly benefit proceeds are treated for income tax purposes similar to a lump-sum life insurance benefit converted to a monthly settlement option, the RA income stream is substantially tax-free and, therefore, advantaged over pension income.

Other uses for the RA include replacing Social Security income lost with the death of a spouse. RAs can provide cost-effective executive benefits, prove useful in divorce, prenuptial/second spouse cases, planning for special need dependents, replace disability income lost to death of the recipient, and much more. The RA is too economical to ignore in the case of an adult child providing support for a parent. A son, age 50, supports his 70-year-old mother, and wishes to ensure a $2,000 monthly supplement to her Social Security income should he predecease her. The RA can guarantee that income for $32.81 in monthly premiums.

We would be happy to help you determine whether the RA concept or other proactive ideas could advance any of your important objectives.

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