

Financial Planning News

What's up with Longevity Insurance?

It's a good news, bad news scenario. The good news is we are living longer. Life expectancies continue to advance year by year.

The bad news is we are living longer. Our financial nest egg needs need to last for a longer period of time. In the financial planning world we call this Longevity Risk: the risk of living so long that it causes excessive stress to our limited financial resources.

Longevity risk is perhaps the biggest financial challenge individuals and couples face as they plan and strategize for retirement and the last third of their lives. Retirement and Transition Financial Planners have a number of strategies to help people manage longevity risk but there is one with which you may not be familiar, but has been getting a lot of attention recently: Longevity Insurance.

The Monday, April 9th edition of the Wall Street Journal, for example, discusses Longevity Insurance in an article titled "How to Create a Pension (With a Few Catches)". One of these two links should get you there.

[WSJ: How to Create a Pension](#)

http://online.wsj.com/article_email/SB10001424052970204571404577253853314354494-1MyQjAxMTAyMDEwNTExNDUyWj.html?mod=wsj_share_email

Longevity Insurance is not a new idea but rather it is a new name for an established financial product whose time to shine in the limelight may have come. Longevity Insurance is simply an annuity with the feature that the income stream is deferred or delayed.

A little review may be in order. An annuity is a contract with an insurance company. You typically give an insurance company a lump sum payment and, in return, they promise to give you a guaranteed* stream of income either for a period of time or for your entire lifetime. With an immediate annuity these income payments start right away..

With the Longevity Insurance concept, however, you typically make a lump sum payment to an insurance company today but payments do not start until some point in the future, typically in your early eighties.

There are two important benefits. Your benefits, when they do start, can be much larger than they would be if you started the income stream immediately (see the example in the referenced article).

Second, and more importantly, longevity insurance can remove a significant amount of the uncertainty out of retirement planning. With the guarantee* of a substantial lifetime income stream starting at age 80, for instance, you would then only have to determine how to manage your remaining financial resources until that age. This clearly defined period of time makes planning can make planning much easier.

There are caveats , of course. Like any insurance product the ability of longevity insurance to perform as promised depends on the financial health and stability of the insurance company. Also with interest rates so low today it may not be the best time to commit a significant portion of your savings.

Longevity insurance is not a retirement planning silver bullet but it is another useful option in the toolbox of strategies to help you manage your financial future with increased confidence and clarity.

* Guarantees are subject to the claims-paying ability of the issuing insurance company. Annuities are long-term investment products designed for retirement purposes. Withdrawals of earnings are subject to ordinary income tax, and prior to age 59 ½ may be subject to a 10% federal penalty.

Financial Planning News is periodic updates on useful topics related to holistic life and financial planning.

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