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Income That Kicks In at 85

By ALEKSANDRA TODOROVA

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Outliving retirement savings is many investors' worst nightmare. Now, some insurance companies are rolling out products catering to that fear.

Longevity insurance provides guaranteed income typically starting after a person turns 85, in exchange for an initial investment made some 20 years earlier. Payouts are fixed and cover you and your spouse for as long as you live.

The products are a new spin on deferred fixed annuities, which are typically tax-deferred investment vehicles set up to provide a guaranteed income stream starting at a future time.

Longevity insurance is "an old product that's been dressed up in new clothing," says Steve Weisbart, an economist with the Insurance Information Institute, a New York-based industry group.

If you're someone who loses sleep over the prospect of outliving your savings, you may want to consider longevity insurance. But be aware of the downsides, including the possibility that you may not live long enough to see one dime.

Bigger Payouts

The main advantage of longevity insurance over a regular deferred annuity is that the income payouts are higher. How much higher? If you bought a \$10,000 deferred fixed-income annuity from insurer MetLife at age 65, in 20 years that annuity would start paying \$137 a month, assuming the investment grows at the minimum guaranteed 3%. But with MetLife's Retirement Income Insurance, your monthly payout would be \$710.

So what's the catch? To offer that sort of payment, insurers have stripped many of the flexibilities of deferred annuities. For instance, with a deferred annuity you are typically guaranteed a minimum annual return on your investment -- and may earn more than that depending on market conditions. With longevity insurance, however, you'll get the same payout regardless of how the stock and bond markets perform over the next 20 years. The product also has no inflation adjustment built in, which means 20 years from now the income you imagined receiving may be worth considerably less.

Most importantly, longevity insurance typically has no death benefit, which guarantees an account will hold a certain value that can be paid out to heirs if the insured dies before the payout age. What's more, it typically doesn't allow any withdrawals before age 85. With the life expectancy of a 65-year-old male at 82 years and a 65-year-old woman at 85, according to the National Center for Health Statistics, you may not even live to see your initial investment pay back.

"What the insurance companies are doing here is taking money from a lot of people who'll never live to get anything," says Steven Podnos, a fee-only financial planner with Wealth Care in Merritt Island, Fla.

Garth Bernard, vice president and actuary at MetLife, says this is the only way insurers can offer such attractive payouts. "You're giving up something to get the price down," he says.

Flexibility at a Cost

Insurers are aware of these concerns and are starting to add flexibility to their plans, including early payouts and a death benefit. But these features come at cost, which can lower monthly payments -- diminishing one of the key benefits of the plans.

Hartford Financial Services Group, for example, offers a longevity product that allows investors to start receiving payouts before they hit age 85. Starting your income stream earlier, however, means the payouts will be lower.

A \$10,000 policy bought at 65 with income starting at age 75 would pay out \$166 a month, compared with \$638 a month if income starts at age 85. Add on a death-benefit option, and the monthly income drops to \$137 starting at 75 or \$448 at age 85.

No matter what, longevity insurance should be, at best, a small part of a long-term financial plan. It's "a particularly effective product if you couple it with an investment strategy," says Chris Raham, a longevity expert with Ernst & Young.

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