

40 | Investigate Longevity Insurance

Retirement planning would be a whole lot easier if you knew when you were going to die. Just think: You wouldn't have to worry about scrimping through your 60s only to drop at 75, or about taking too many cruises only to end up eating cat food at 90.

Certainty isn't an option, but there are an increasing number of ways to insure against the risk of not having it. Insurance companies have rolled out a number of products, known as longevity insurance or longevity annuities, that help to mitigate the unknowns of living to an advanced age. In contrast to an immediate fixed annuity, for which you pay an upfront sum and can immediately begin receiving a monthly income stream for life, longevity annuities don't produce payments until you reach a specified age, such as 85. "You're betting that you're going to live a long time," says Jim Shagawat, a financial planner based in Fair Lawn, N.J.

Plenty of advisers, including Shagawat, doubt that the gamble is a wise one for most. Even if you do make it well past 85, inflation could eat away at the benefit, they argue, and counting on an insurer to be around in 20 or 30 years requires a leap of faith. Meanwhile, the money you put aside is tied up. But some experts are changing their tune in light of market turmoil, longer lives, and more competitive products. "I said I'd wash my mouth out with soap before I talked about annuities," says Harold Evensky, a veteran financial planner in Coral Gables, Fla. "Now I think they'll be among the most important vehicles

of the next decade."

Evensky is intrigued, in particular, by longevity annuities, which require investors to commit less money. New York Life, which rolled out its product in July, would ask a 65-year-old man who wants \$3,000 in monthly income to put away \$565,978 if he

policies have options—which pay out much less—that let your heirs get that initial deposit back if you die early.) But you're able to spend more of your portfolio with more certainty, knowing you will be covered later. "People become very concerned about spending their last dime," says Jason Scott,

managing director of the Retiree Research Center at the advisory firm Financial Engines. "With this product, I know I've taken that risk off the table."

But not entirely, so consider only insurers with the highest financial strength ratings. Each state has a "guaranty association" that protects policyholders by continuing coverage in case of insolvency, but rules vary by state, and you want to make an educated guess that the insurer will be around, too. If you buy a longevity annuity, advisers recommend covering only your basic expenses, though you may want to price out whether it makes more sense to get an inflation rider or a little more insurance from the start.

People worried about getting to 85 might be tempted instead by a single premium immediate annuity with fixed payments.

(Many advisers recommend against variable annuities, which allow you to invest the premium yourself but tend to be complex and have high fees.) But you may want to hold off awhile, says Evensky. The interest rate you lock in would be very low at the moment, and the upfront investment required will go down as you get older. In any case, experts say, sock away only a fraction of your savings. You never know when you'll need access to liquid funds. Or when you'll take another cruise. —Jena McGregor



buys a fixed annuity with immediate payouts. If he wants to get \$3,000 a month starting at age 85, he'd only need to hand over \$59,418. The younger you are when you buy it, the cheaper your longevity annuity will be. Advisers say the products potentially are a fit for people who have a good chance of running out of money and whose family members live well into old age.

It's possible, of course, that even the genetically blessed will die before 85 and lose the entire premium. (Some

You don't receive payments until you reach a specified age.