

Does Longevity Insurance Make Sense?

Written by Rob Copeland

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As Americans' average life expectancy increases, many people are afraid of outliving their savings.

One solution that has appeared recently is what's known as "longevity insurance." Longevity insurance is designed to provide guaranteed income from the time you reach old age—usually around 85—to the time you die.

The thinking is that by age 85, your savings may be depleted. The appeal of longevity insurance is that it can allow you to remain independent as long as you desire.

Longevity insurance typically provides larger payouts the earlier you buy the policy. If you buy a \$50,000 policy at age 50, you will receive significantly more annual income than you would if you bought the same policy at age 60. The insurance is available with various bells and whistles; for example, adding inflation insurance will ensure that your dollars won't have lost value decades from now.

My view on longevity insurance is that it may be right for certain people. Yes, there's a cost associated with it. But if that buys you peace of mind, it may be worth it. Still, I invite you to discuss longevity insurance before you pull the trigger.

It's important to understand that when you buy the insurance, you're betting that you will live past age 85. If you don't, the insurance company keeps your money—your heirs don't get any of it. What's more, the lump sum you invest in longevity insurance today won't be available until you reach old age. If you need it in an emergency, you're out of luck.

One alternative some people may be more comfortable with is setting aside a chunk of money in a separate account, investing it and then tapping it when your nest egg is running out.

Finally, it's important to be realistic about how much money you'll actually need in your old age. I believe as you get less active—less travel, less time on the golf course, and so on—you need

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less income. You may assume you need longevity insurance, when in fact you probably don't.

Longevity insurance is an interesting new option and may make sense for many people. Yet every person's situation is different; as with any investment or major financial decision, it's wise to look at all the variables before making a decision.