

Unconventional Wisdom Concerning Annuities for Seniors

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The good news is once you reach age 65, you have a 50 percent chance of living to age 90 and a 1-in-4 chance of reaching 100. The bad news? Everybody treats you like you're going to die at 65.

For a long time 65 has been a sort of magic number in the retirement and personal finance industry. It's when you're supposed to retire and it's also when many advisors seem to think you're no longer entitled to any sort of decent return on your savings and investments. Kind of reminds you of the Frank Howard Clark quote, "We've put a lot more effort into helping folks reach old age than into helping them enjoy it."

Retirement at 65 is ridiculous. When I was 65 I still had pimples.

—George Burns

Here's a question: With people living longer in retirement than ever before, should we still think of 65 as the 'magic' number where we go into our shell and stop investing for the long term? 65 is not the end of anything. It is the beginning of an income distribution phase that could last 20, 30 even 40 years.

This leads to another question: With retirements stretching longer and longer, shouldn't you be doing all you can to make sure your clients keep pace with inflation? You need to be prepared not only with viable products for clients over age 65, but also for clients age 80 and older.

There was a time when conventional wisdom said you shouldn't put a 65-year-old in a deferred annuity. But let's go back to our statistics at the beginning: the average 65-year-old has a 50 percent chance of living to age 90 and a 1-in-4 chance of reaching 100. Given those facts, many carriers have had to rethink the max issue ages for their products, and many agents will have to rethink what is an appropriate plan for their elderly clients.

Now to the question we've been dancing around: Is a deferred annuity suitable for an 80-year-old? Some would answer with an unqualified 'no.' But I would argue the correct answer is 'maybe.'

If you have an elderly client whose immediate income needs are being met and you've already sufficiently insured them against the various risks associated with late-stage retirement, a deferred annuity can be a good option to preserve and protect a portion of their assets while:

- Maintaining access to a portion of the funds
- Avoiding probate at death
- Providing full value to heirs at death
- Potentially reducing taxable social security income

If those are the client's goals, they can all be met by an annuity, something that cannot be said for traditional investments. Annuities are a great way to escape market volatility and create a permanent income stream the client cannot outlive. And, in the case of indexed products, the client can still participate in a portion of the market's upside performance while enjoying the benefits of principle protection.

The key question you have to ask when determining the suitability of an annuity is not necessarily "how old are you?" it is "what is the money for?" If you're dealing with funds they need for immediate income needs, then obviously you wouldn't put them in a deferred annuity with a long surrender period. A single-premium immediate annuity would be a much better fit for creating a stable income stream in that scenario.

But what if, on the other hand, have an elderly client whose immediate income needs are being met by another source and they have funds they want to grow for the long term. They may want to leave a larger legacy behind for their heirs, or they may just want to grow these assets in case they're needed to supplement income later on. This is a great scenario to use a deferred annuity—even for an 80-year-old.

No one hates abusive practices more than the people who are trying to do the right thing for their clients. But what people need to realize is that sometimes the right thing isn't always in keeping with conventional wisdom. What was once considered unacceptable will one day be the norm. The ability to adapt to the changing realities of today's retirees will be the key for carriers and advisors who wish continue serving the senior market.

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