

# Longevity Annuities

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Convert your retirement savings into a future guaranteed lifetime income stream

# Longevity Annuity Guide

## INTRODUCTION

The decline of pension plans is an unfortunate reality for today's American worker. More than just an effective way to pool money for retirement, the pension enabled the "golden years" of financial security, world travels, and new hobbies. This ideal is harder to achieve with Traditional IRAs and 401(k)s which help you save but don't provide a good way to automatically turn those savings into dependable income, especially when you don't know how long you'll live.

There is a solution: a longevity annuity, known also as a deferred income annuity, or DIA. A longevity annuity is essentially a pension that you can buy for yourself. With a longevity annuity, the wealth you've been accumulating – whether in your IRA, 401(k), or after-tax savings accounts – can be converted into a guaranteed lifetime paycheck starting at some point in the future.

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**Longevity annuities are also known as deferred income annuities (DIAs) or longevity insurance.**

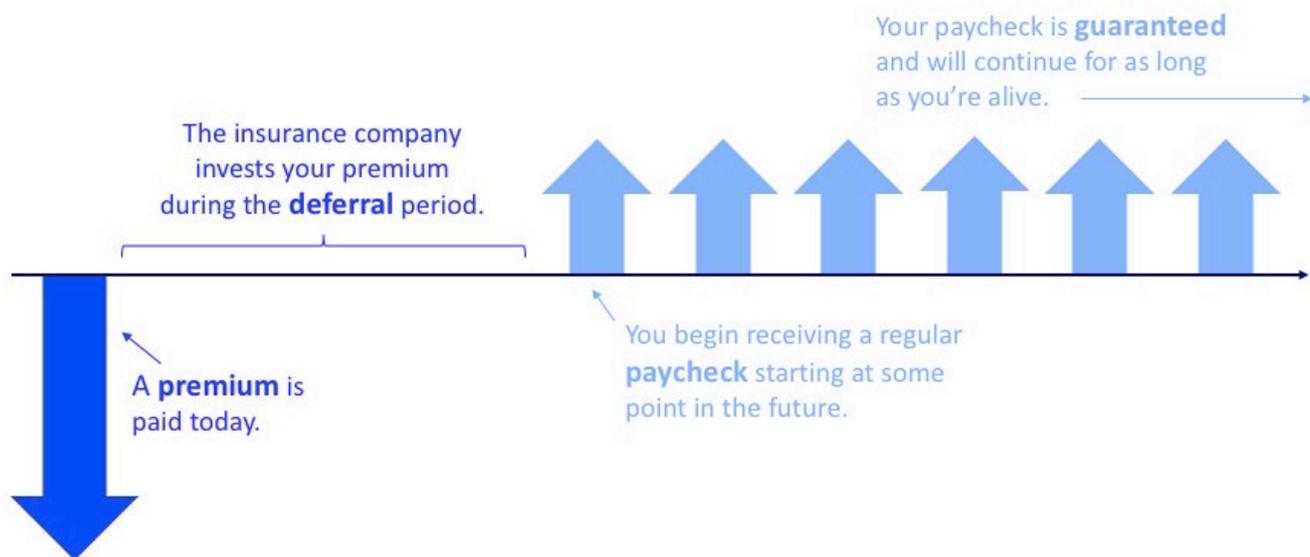
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In this guide, we'll tell you everything you need to know about longevity annuities – how they work, how they're customized, and how to evaluate whether converting a portion of your assets into income makes sense for you.

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## WHAT IS A LONGEVITY ANNUITY?

A longevity annuity is guaranteed retirement income you can purchase to insure your longevity, or the risk of outliving your savings. When you buy a longevity annuity, you commit money now in exchange for a future monthly paycheck continuing for as long as you're alive. Whether purchased with your qualified or non-qualified savings, a longevity annuity turns your assets into guaranteed income for life. You can think of it like a pension you buy for yourself.



A longevity annuity is... an **income annuity**.

An income annuity is a contractual agreement between you and an insurance company. In exchange for a lump-sum premium, the insurance company promises to give you a steady, guaranteed paycheck for life (or a certain period of time, a less-common version of the product). The size of the paycheck is specified upfront and depends on factors such as your premium, age, and gender.

More specifically, a longevity annuity is... a **deferred** income annuity.

A longevity annuity (a.k.a. deferred income annuity) begins annuity payments at a future date, typically 2-40 years after the premium is paid. (In contrast, immediate income annuities begin payments within 1 year.) During the deferral period, the insurance company invests your money on your behalf. The longer you delay starting to receive payments, the greater the size of the payments they'll be able to offer you.

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And finally, a longevity annuity can be... **qualified, non-qualified**, or a **QLAC**.

Qualified longevity annuities are purchased with pre-tax money from your 401(k), Traditional IRA, or other qualified plan. The money is transferred penalty-free and will not incur any taxes during the deferral period. Longevity annuities are subject to required minimum distributions (RMDs), meaning that income must begin by age 70½.

Non-qualified longevity annuities differ in that they are purchased with post-tax savings, are not subject to RMDs, and thus can be annuitized after age 70½. In addition, the taxes incurred once distributions begin will be lower to avoid taxing the money used to purchase the longevity annuity twice.

QLACs fill the void left by qualified and non-qualified longevity annuities: the ability to use pre-tax qualified savings but begin distributions after age 70½. This type of longevity annuity has the added benefit of deferring a portion of your RMDs until as late as age 85.

In summary, a longevity annuity is a pension you can buy for yourself using your pre- or post-tax retirement savings. In purchasing a longevity annuity, you insure your financial security no matter how long you live.

## HISTORY & IMPORTANCE

The concept behind a longevity annuity, an exchange of a premium today for a stream of payments in the future, is not new. This is exactly the model upon which Social Security was built and exists today: the taxes you pay while working fund the Social Security income you'll collect in retirement. Pensions are another example of longevity annuities where the employer pays the premiums on your behalf.

A longevity annuity is the only way for an individual to purchase a future stream of guaranteed income – like that offered by pensions and Social Security – by him or herself. The product was introduced more recently in response to employers' shift from defined benefit (pension) to defined contribution (401(k)) plans. This shift has meant that individuals are forced to do more retirement planning on their own. A 401(k) does a great job of helping you accumulate assets, but then what happens when you need to turn that pool of money you've accumulated into a steady stream of income you won't outlive?

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That's where longevity annuities come in. In exchange for a premium paid today, an insurance company will provide a guaranteed lifetime paycheck that continues for as long as you're alive. Like the other types of insurance they offer, a longevity annuity is a transfer of risk and a form of protection. Just like you insure your home, you can insure your longevity by passing on the risk that you outlive your savings to an insurance company.

## QUALIFIED PLANS

- ✓ Tax-deferred savings growth
- ✓ Ability to diversify investments through mutual funds and ETFs
- ✓ Matched 401(k) contributions
- ✗ No easy way to turn your savings into income that won't run out

It's important to note that employers didn't stop offering pensions because they're not useful or financially responsible. It was simply too large of a liability for a company not specializing in insurance to manage. But today numerous insurance companies – and typically those with the highest credit ratings – offer longevity annuities.

## BENEFITS

Figuring out how long your retirement savings needs to last is difficult. Guaranteed lifetime income can provide you with peace of mind through a paycheck that you won't outlive. Buying a longevity annuity with your retirement savings offers a number of benefits:

### ✓ Longevity Protection

Insurance is typically thought of as something you buy to protect you and your family from unfortunate events. By turning your assets into income you can't outlive, the longevity annuity offers a more pleasant kind of protection: longevity insurance. The longer you live, the more financial value the annuity provides.

### ✓ Finite Planning Horizon

Adding a longevity annuity to your portfolio can dramatically simplify your retirement planning. Knowing that at a future date you'll have a paycheck that sustains your lifestyle allows you to manage your remaining assets to a fixed instead of unknown investment horizon. The certainty of guaranteed future income can completely change your approach to investing, withdrawing, and spending.

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To illustrate how a longevity annuity offers longevity protection and fixes your investment horizon, let's use Alan as an example. Alan is 50 years old and plans to retire at 70, at which point he'd like to have \$90,000 to spend each year. But, without knowing how long he'll live, Alan doesn't know how much more he needs to save. He's considering buying a longevity annuity to simplify his retirement planning and to ensure his financial stability for as long as he's alive.

With \$100,000 of his savings, Alan can buy a longevity annuity that will cover his annual expenses starting at age 85 and continuing for the rest of his life. Knowing that he'll be set at age 85 regardless of his lifespan, Alan can more comfortably save for retirement. Assuming his IRA will earn a 5% return and ignoring inflation for simplicity, Alan needs to accumulate \$950,000 by age 70. At that point, he'll be able to retire and withdraw \$90,000 from his IRA every year until age 85 when his longevity annuity income will kick in. His retirement portfolio is much more predictable and secure with the longevity insurance offered by a longevity annuity. Note that for ease of explanation, this example is on a pre-tax basis.



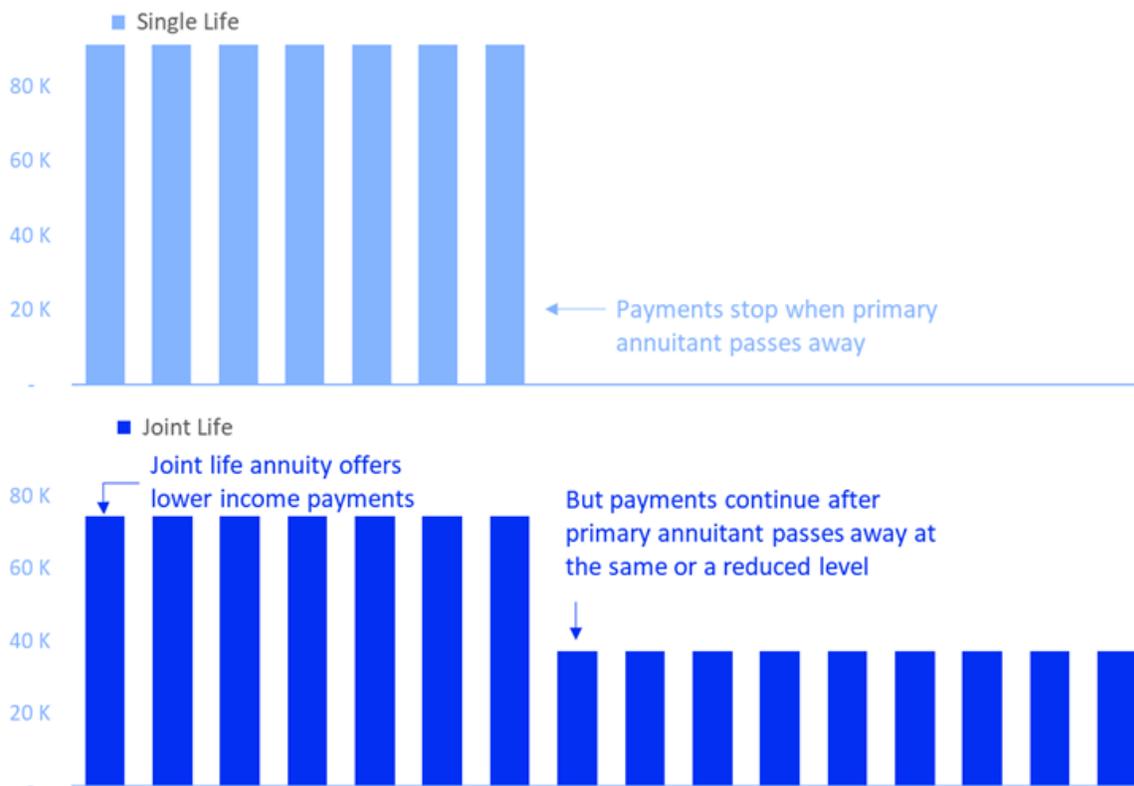
Longevity annuity rates based on a \$100,000 Lincoln Financial life-only policy for a male aged-50 with income starting at age 85. Rates as of 10/11/2018.

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## ✓ Spousal Benefits

Longevity annuities can be set up as joint annuities, which means that payments continue as long as either you or your spouse are alive. Structuring the contract like this is a great way to preserve financial stability and quality of life for the surviving spouse.

Let's continue to use Alan as our example. Alan expects that he will pass away before his 48-year-old wife, Claire. He wants to know that she'll be okay (at least financially) once he's gone, so he's considering adding her to his longevity annuity. Alan can purchase a joint life policy that's contingent on her life as well, such that income payments continue until both of them have passed away. The income payments will be lower, but they're expected to be paid over a longer period of time. Since their expenses will decrease when it's just Claire, they've opted for a 50% income reduction, which increases their income while they're both alive.



Longevity annuity rates based on \$100,000 Lincoln Financial single and joint life-only policies for a male aged-50 and a female aged-48 with income starting at age 85. Rates as of 10/11/2018.

# Longevity Annuity Guide

## ✓ Tax Preferential Treatment

From the government's perspective, an annuity is a retirement savings vehicle. As such, it receives the same tax treatment as IRAs: no taxes are paid until distributions are made. For a longevity annuity, this means that all the money you hand over to the insurance company can grow, albeit invisible to you, on a tax-deferred basis. The benefits are slightly different depending on whether the longevity annuity is qualified or non-qualified:

- Qualified longevity annuities are purchased with pre-tax funds from your 401(k) or Traditional IRA, which are already accumulating on a tax-deferred basis. Retirement savings can be transferred to a longevity annuity penalty-free, maintain their tax preferential treatment, and count towards your IRS-mandated required minimum distributions.
- Non-qualified longevity annuities are purchased with post-tax funds that, depending on how they're invested might incur income taxes annually. For your savings that are already earmarked for retirement but not sitting in a tax-deferred account, buying an annuity is a great way to postpone your taxes and allow your interest to compound.

## ✓ Principal Protection

The savings that you allocate to a longevity annuity are protected from swings in the stock or bond markets. And, by selecting the return of premium & death benefit options (more on this later), you can guarantee that all of your savings will be passed onto your beneficiaries if you pass away prematurely.

## ✓ Some Liquidity

While longevity annuities are generally illiquid products functioning like a paycheck and not a savings account, many carriers offer some level of liquidity. Most commonly, this is in the form of commutation, or withdrawal benefit which permits accelerating upcoming monthly benefits. A limited number of monthly payments can be accelerated at once, and guidelines exist around when and how often the policyholder can take advantage of this liquidity.

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## ✓ Clear Product Structure

The longevity annuity has a simple structure. For any amount of premium you would like to put into the contract, the insurance company will tell you how much monthly income they can offer. There are some decisions you'll have to make (more on this later) that affect the level of income, but that's it. The income is net of the insurance company's expenses and the commission collected by the distributor.

## DRAWBACKS

Despite these benefits, DIAs are not good for everyone or for all situations. Here are some of the drawbacks:

### X Limited Liquidity & No Cash Value

Longevity annuities don't offer much liquidity and don't have a cash value that can be withdrawn or borrowed from. Longevity annuities should be thought of as a future paycheck, like a pension. While the value of your money will be growing during the deferral period, its growth will only be reflected in the income amount and will be otherwise invisible to you.

### X No Market Exposure

The income you'll receive is determined upfront, fixed, and isolated from any market upside (or downside) potential. While this is a positive attribute for those focused on insurance coverage, it isn't the solution for those seeking a more investment-style product.

# Longevity Annuity Guide

## TYPICAL BUYERS

A longevity annuity is a powerful way to ensure you have a guaranteed source of income in retirement. That doesn't mean it's right for everyone, and it never makes sense to purchase an annuity with your entire portfolio. Here's the methodology we've developed at Blueprint Income to help you think about whether a longevity annuity may (or may not) be a fit for you:

### Consider buying a longevity annuity if...

- ✓ Social Security and/or pension benefits won't cover your regular expenses
- ✓ You're a pre-retiree or early in retirement
- ✓ You've accumulated between \$250,000 and \$5 million in retirement savings
- ✓ You have average or above-average health
- ✓ You're seeking greater certainty in retirement and more of an insurance product
- ✓ You don't need access to the money immediately

### A longevity annuity is probably not the right product for you if...

- X Social Security and/or pension benefits cover your regular expenses
- X You're younger than 45 or over 75 years old
- X You've accumulated less than \$250,000 or more than \$5 million in retirement savings
- X You have below-average health
- X You're seeking higher risk and more of an investment product
- X You need access to the money immediately

A common objection to longevity annuities is that they don't build or provide access to cash value unlike other insurance products used for retirement planning. This is true, but the trade off is access to higher guaranteed income than these more liquid products will offer. Using only a portion of your portfolio to purchase a longevity annuity leaves the rest of your assets to provide liquidity and market upside.

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## LONGEVITY ANNUITY RATES

The income offered on longevity annuities will vary over time as market conditions change, being driven most notably by longer-term Treasury and investment grade corporate bond yields. In addition, your personal attributes (age, gender) and the policy options you select will impact the quote. As of October 2018, highly-rated carriers are offering the following annual income payments for a \$100,000 purchase:

Age	Income Start	Male	Female	Joint
55	65	\$10,290	\$9,620	\$9,940
55	70	\$15,050	\$13,820	\$14,410
55	65	\$23,340	\$20,860	\$22,030
60	65	\$8,400	\$7,720	\$8,050
60	70	\$12,410	\$11,100	\$11,710
60	75	\$18,830	\$16,830	\$17,770
65	70	\$9,980	\$9,000	\$9,470
65	75	\$15,960	\$13,750	\$14,770
65	80	\$25,700	\$22,070	\$23,750

Longevity annuity quotes shown as annual income for a \$100,000 premium as of 10/1/2018. All quotes are life only. Joint quotes are for a male and female with the same age and 50% continuation.



On our website you can compare quotes across top-rated carriers.

Understanding how your personal attributes and the options you select drive quotes enables you to structure the policy to best suit your needs. Expect to have to think about the following when evaluating a longevity annuity:

**Age:** Income will decline as you age. The longer you wait to buy, the less time the insurance company will have to invest your premium before beginning income payments. Holding all else equal, buying income today will be cheaper than buying the same amount in the future.

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**Gender:** Income will be higher for males than females. Because women have longer life expectancies than men, the income they can receive each year will be smaller.

**Premium:** Income will increase with higher premiums. A portion of the insurance company's expenses incurred are fixed per contract such that incremental premium can go entirely towards buying income. Said another way, there is a discount for larger premium deposits.

**Income Start Date:** Income will increase the longer you delay its start. Longer deferral periods mean (1) more time for the insurance company to invest your money before starting payments and (2) fewer years of expected income payments.

**Single vs. Joint Life:** Income will be higher for single life than joint life policies. A joint life policy will provide income as long as either person is alive, which is almost certainly longer than if contingent on one person.

**Payout Option:** Income will be lower for richer guarantees. Guaranteeing a minimum cumulative income (cash refund / installment refund) or a minimum number of payments (period certain) increases the amount the insurer expects to pay you. To compensate for the extra guarantee, they will need to lower the recurring payments.

**Riders:** Income will be lower for each rider added. In general, any extra options or riders added to a policy will require compensating the insurer for additional risk they've assumed. Typically these options increase your guarantee or provide you with extra protection, both of which will result in lower base income amounts.

Finally, you'll usually notice an inverse relationship between the creditworthiness of an insurer and the income they offer. Insurers with higher credit ratings have earned them by maintaining higher capital reserves and more conservative investment portfolios limiting their profitability and thus the income they can offer you. Only highly-rated insurers (A.M. Best rating of at least A) make the cut for inclusion on the Blueprint Income platform. And, even among the insurers we've decided to work with, it's worth distinguishing among the levels of financial strength. The guaranteed income you're promised is only as good as the financial strength and longevity of the insurer backing it.

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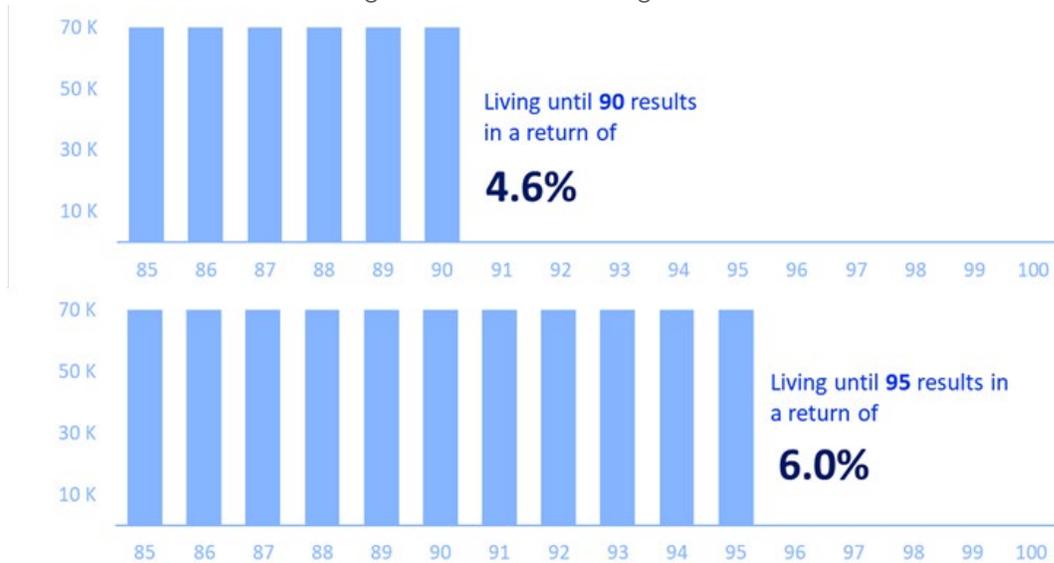
## FINANCIAL VALUE

A common question asked when considering moving some of your retirement assets into a longevity annuity is: what value will I get from this purchase? Typically, pre-retirees look for a quantitative answer, such as an IRR or ROI, that they can compare to returns generated in their fixed income portfolio.

Unfortunately, the value of a longevity annuity cannot be understood quite so simply or compared to the return of a traditional financial product on an apples-to-apples basis. Why not? Because calculating an IRR or ROI requires knowing the upfront investment and all future income amounts and dates. As a longevity insurance product, the longevity annuity will provide you with income for as long as you're alive, i.e. end date to be determined!

Instead, we can calculate a range of IRRs based on your potential lifespan. The longer you live, the higher the IRR over the life of the product will be. While thinking about your quantitative return should be a part of your analysis, don't forget about the more qualitative risk reduction and peace of mind the product is providing as well.

In one of our earlier examples, 50-year-old Alan bought a \$100,000 longevity annuity with income starting at age 85. The policy could wind up generating a 4.6% return if he lives until 90, which increases to 6.0% at age 95 and 6.6% at age 100.



Longevity annuity rates based on a \$100,000 Lincoln Financial life-only policy for a male aged-50 with income starting at age 85. Rates as of 10/11/2018.

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## TAXATION

The taxation of annuities depends first and foremost on whether the annuity was purchased with pre-tax or post-tax money. If the premium was paid with post-tax money, as with a non-qualified annuity, the portion of any income payments that constitutes a return of that premium will not be taxable. On the other hand, qualified annuities are purchased with pre-tax retirement savings. Because the money used to fund the annuity has never been taxed, all distributions from the annuity will be fully taxable. In either case, ordinary income tax rates will apply.

### Taxation of Qualified Longevity Annuities

At purchase, pre-tax funds will be moved from one type of qualified retirement account to another. Traditional IRAs, 401(k)s, and qualified longevity annuities all have the same tax status, so moving money among them will not incur any taxes or penalties.

No taxes will be owed during the deferral period. Longevity annuities do not have an account value that accumulates, so there isn't actually anything to tax. In fact, even if it had an account value that accrued interest (as with a fixed deferred annuity) or earned capital gains (as with a variable deferred annuity), no taxes would be due. As retirement savings vehicles, annuities can grow on a tax-deferred basis.

Once the longevity annuity is annuitized, i.e. income payments begin, taxes will be owed. Because the money used to purchase a qualified longevity annuity has never been taxed, all distributions will be 100% taxed as ordinary income. These taxable distributions will be reported to you and the IRS by your insurance company using tax form 1099-R.

For longevity annuities with return of premium and/or death benefit riders, beneficiaries will receive any remaining value in the contract in the case of the annuitant's premature death, amounting to the difference between the initial premium paid and the cumulative income payments received. Any death benefit owed will be paid directly to the beneficiary, thereby avoiding the probate process. The beneficiary can elect to annuitize the death benefit over his/her life expectancy instead of taking it as a lump sum. Either way, the annuity contract will typically be included in the deceased's estate, and the beneficiary will be taxed on any proceeds they receive at ordinary income tax rates. Note that designating your spouse as your beneficiary will typically result in the annuity being excluded from your estate.

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## Taxation of Non-Qualified Longevity Annuities

Non-qualified longevity annuities are purchased with savings that have already been taxed. If those savings are currently earning interest that is taxable annually, with a Certificate of Deposit for example, moving that money into a retirement savings vehicle can reduce your income taxes during the deferral period. Technically, even though annuities provide for tax-deferred accumulation, longevity annuities are not accumulation annuities, so there isn't actually anything to tax during the deferral period.

Once the longevity annuity is annuitized, i.e. income payments begin, taxes will be owed. Each income payment can be split into two pieces: a part that's returning your initial investment, and a part that's your gain or interest earned. Taxes will only be owed on the gain, as the premium you invested in the contract has already been taxed. This non-taxable portion of the income payment is determined using an exclusion ratio, which is provided by the insurance company at purchase.

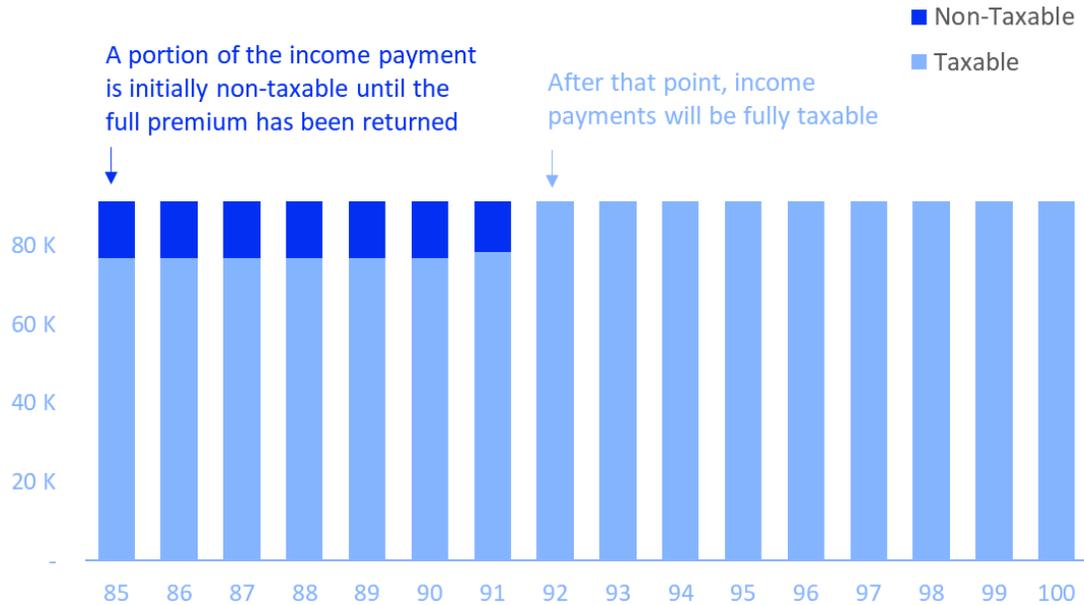
$$\text{Exclusion Ratio} = \text{Investment in the Contract} \div \text{Expected Return}$$

The exclusion ratio will be applied to each income payment, indicating how much is not taxable, until the full investment in the contract has paid out. Once the investment has been fully returned subsequent income payments will be fully taxable.

To see how this works, let's continue analyzing Alan's \$100,000 longevity annuity that he's buying at age 50 with income starting at age 85. Alan will not be using pre-tax retirement savings to buy the longevity annuity, so it'll be classified as non-qualified. Once Alan starts receiving income at age 85, he'll have to pay taxes on a portion of the payments.

The exclusion ratio for Alan's policy is 16%. The insurance company calculated this as the ratio between his investment in the contract (\$100,000) and the total amount of income they expect to pay him (\$629,000 in this case). Thus 16% of his income payments will be excluded from his taxable income until a total of \$100,000 has been excluded. For Alan, this will be the case once he's received 7 years worth of payments, after which the longevity annuity income will be fully taxable at ordinary income rates.

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Longevity annuity rates based on a \$100,000 Lincoln Financial life-only policy for a male aged-50 with income starting at age 85. Rates as of 10/11/2018.

Finally, if a death benefit is due to your beneficiaries, taxes owed will be calculated in a similar manner. Any portion of the death benefit that constitutes a return of premium will be received tax-free, whereas benefits in excess of the initial investment will be taxed at ordinary income levels. Either way, the benefit will be passed directly to beneficiaries, thus avoiding the probate process. And, unless your spouse is designated as your beneficiary, the annuity will typically be included in your estate. Please consult a tax professional for complete information regarding annuity taxation as it applies to your personal situation.

Annuity Phase	Qualified	Non-Qualified
Purchase	No taxes or penalties incurred when moving pre-tax retirement savings to a qualified longevity annuity.	No taxes or penalties incurred when moving post-tax savings to a non-qualified longevity annuity.
Deferral	No taxes will be owed during deferral.	No taxes will be owed during deferral.
Annuitization	Income payments will be fully taxable at ordinary income tax rates.	The portion of income payments that are a return of premium, as determined by the exclusion ratio, are not taxable.
Death Benefit (if applicable)	The beneficiary will be taxed on any proceeds they receive at ordinary income tax rates.	The beneficiary will be taxed only on the portion of proceeds that exceeds a return of premium at ordinary income tax rates.

# Longevity Annuity Guide

## DIVERSIFICATION

It is widely accepted that a diversified portfolio is superior to one with singular or uniform market exposure. For nearly every target rate of return, a diversified portfolio of minimally-correlated investments can be constructed that will be lower risk than one investment with equal expected return. When diversifying your retirement portfolio, you will likely select a combination of equity and bond market investments that are appropriate for both your risk-appetite and your investment horizon. In general, your portfolio should tend towards equity investments in the early years and then gravitate more towards fixed income investments as you near retirement.

The fixed income assets in your portfolio serve to provide steady, reliable income that is uncorrelated, or inversely correlated, with the equity markets. Sound familiar? This is exactly the purpose that a longevity annuity or any income annuity serves, with one major added benefit: the annuity will continue to make payments until you die. Allocating a portion of your fixed income portfolio to a longevity annuity can generate comparable returns (see the Financial Value section) and reduce your longevity risk.

In fact, adding the security of a longevity annuity to your portfolio can enable you to earn a higher rate of return with the rest of your portfolio. If your longevity annuity or other annuities generate enough income to cover your retirement expenses, you have even more flexibility to invest the equity portion of your portfolio without putting your livelihood at risk.

One final benefit of owning a longevity annuity is the ability to invest and manage the rest of your portfolio to a fixed time horizon. That is, you'll know exactly what type of income your portfolio needs to generate and for how long if the longevity annuity will be covering your expenses starting at a known point in the future.

## FEATURES & RIDERS

It's best to think of the base longevity annuity product as that which provides the most income based on your premium, age, gender, and income start date. But, there's room to customize the product or add additional guarantees to meet your needs. In some cases, the insurance company will refer to these options as product features. Other times they'll be listed as riders.

# Longevity Annuity Guide

Below are the various ways you can customize your policy, noting that these options can vary from insurer to insurer:

## Single vs. Joint Life

Longevity annuities income can be tied to a single or joint life:

- **Single:** income paid over the lifetime of the insured
- **Joint:** income paid over the 'joint life' of two insureds, i.e. as long as one or both are alive

The income level following the loss of the first life can be designed to remain level or decrease. Opting to reduce the income upon the passing of the first spouse (typically to 40-99% of the starting income level) allows for a greater income level while both are alive.

An alternative to buying a joint life annuity is to purchase a single life annuity with a death benefit (a.k.a. cash refund) and designate your spouse as the beneficiary. Upon your passing, he/she will have the option to continue the contract in his/her name until the benefit has been paid out.

## Payout Options

Income can be based purely on lifespan or can have a guaranteed component:

- **Life Only:** payments stop at death (or later of two deaths for joint)
- **Life with Cash Refund:** additional guarantee over life only that pays beneficiaries the difference between the premium and sum of all payments already received upon insured's death
- **Life with Period Certain:** additional guarantee over life only that guarantees payments for at least a certain number of years. Payments will continue to beneficiaries if insured passes away during this period of time

## Payout Frequency

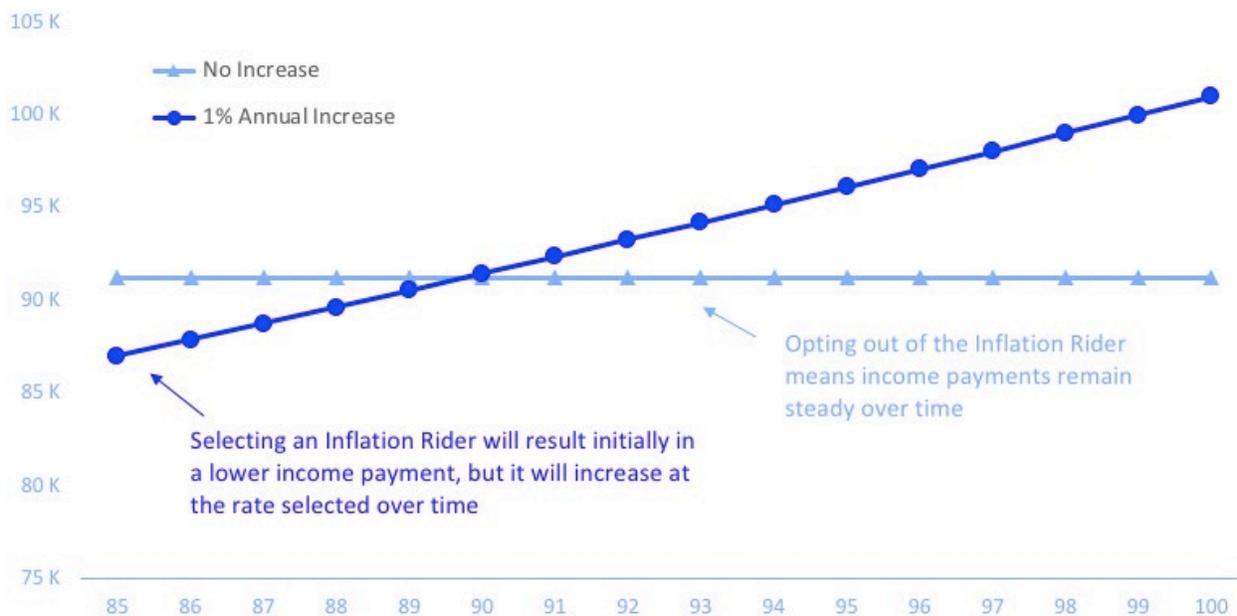
Income payments can be made monthly, quarterly, semi-annually, or annually.

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## Inflation Protection

Most insurance carriers offer an inflation adjustment or annual increase rider that will adjust the longevity annuity income payments annually for inflation. The adjustment made could be predetermined (between 1-5%) or in some cases be based on a Consumer Price Index. Providing these increases will require a lower starting income. Note that the rider does not cover the deferral period, instead only going into effect once the income stream begins.

To illustrate, let's continue with Alan, our 50-year-old who wants to purchase a \$100,000 longevity annuity with income starting at age 85. His initial quote excluded inflation protection and got him \$7,600 per month (\$91,200 per year). If he'd like his income payments to keep pace with inflation, estimating it to be 1% per year, he'll have to accept a lower initial income of \$7,250 per month (\$87,000 per year) which will increase over time.



Longevity annuity rates based on \$100,000 Lincoln Financial life-only policies with and without a 1% increase rider for a male aged-50 with income starting at age 85. Rates as of 10/11/2018.

Because inflation affects the purchasing power of money, it presents a challenge for retirement, which could last 40 years. While we're currently experiencing a period of low inflation, it's averaged 3.2% over the past century, meaning that prices have almost doubled every 20 years.

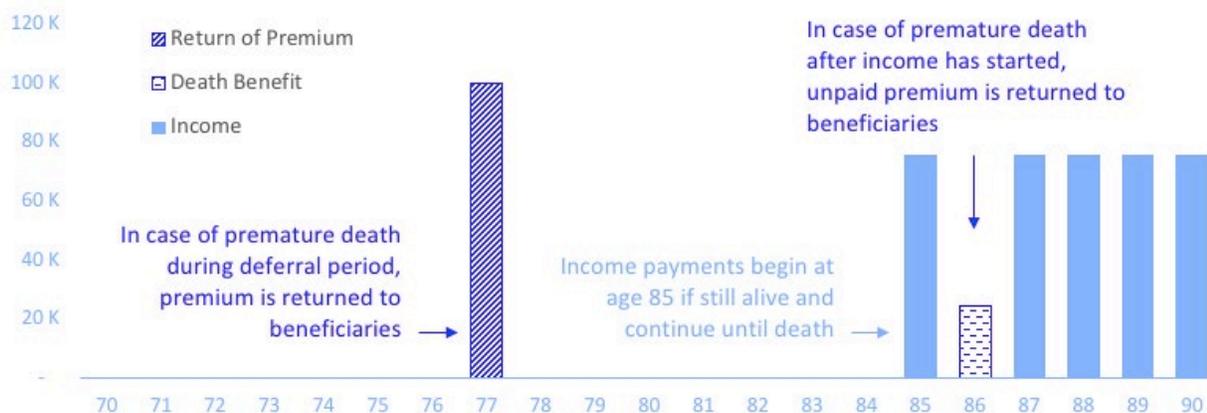
# Longevity Annuity Guide

Adding an inflation rider to your longevity annuity is one way to mitigate the risk of declining purchase power, but it's probably not the most efficient way as the extra protection will come at a cost. Consider instead more direct ways to earn inflation-adjusted dollars. Your Social Security benefit, for one, will be indexed for inflation through a Cost of Living Adjustment. And, for the rest of your assets, maintaining exposure to equity markets and investing in inflation-linked bonds, such as TIPS or I-Bonds, can provide an effective hedge.

## Principal Protection

Through return of premium and death benefit riders, you are guaranteed that your principal (premium paid into the contract) will be returned to your beneficiary should you pass away before getting it back through income payments. The return of premium option protects you before the income start date, and the death benefit rider protects you thereafter. Terminology varies from carrier to carrier, but we always line up quotes apples-to-apples on our platform.

For example, if our 50-year-old pre-retiree Alan is worried about losing money in the event of prematurely passing away, he can add the return of premium and death benefit riders to his longevity annuity. His \$100,000 longevity annuity policy will offer a lower monthly income to cover the cost of the richer guarantee, but any unrecognized value in the contract will be passed onto his heirs. Should Alan pass away before income payments begin, his \$100,000 premium will be returned to his beneficiaries. If he passes away after income payments have begun but before those payments are cumulatively \$100,000, his beneficiaries will receive \$100,000 less the total income payments made.



Longevity annuity rates based on \$100,000 Lincoln Financial life-only policies with and without return of premium and death benefit riders for a male aged-50 with income starting at age 85. Rates as of 10/11/2018.

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## Additional Premium Payments (Flexible or Subscription)

With some carriers you have the ability to fund your longevity annuity over time, either through a flexible premium option or on a subscription basis. This is a good approach for those betting on pricing improvements or wanting to contribute a percentage of your income over time.

## Income Start Date Flexibility

Some insurers' products allow you to change your income start date after purchasing the annuity, sometimes even more than once. Keep in mind that changing your income start date will affect your payments (increasing them if the start date is pushed back and vice versa).

## Payment Acceleration

While longevity annuities are generally illiquid products, functioning like a paycheck and not a savings account, many carriers offer some level of liquidity. Most commonly, this is in the form of commutation, or withdrawal benefit which permits accelerating upcoming monthly benefits. A limited number of monthly payments can be accelerated at once, and guidelines exist around when and how often the policyholder can take advantage of this liquidity.

# Longevity Annuity Guide

## BUYING TIPS

Buying a longevity annuity is a long-term commitment, so dedicate enough time and attention to doing it right! In addition to being available to help walk you through the process, Blueprint Income has compiled a list of things to keep in mind:

### Available Carriers

Longevity annuities are offered by leading insurance companies, including Guardian Life, Lincoln Financial, MassMutual, MetLife, Mutual of Omaha, New York Life, Pacific Life, and Principal. Before you buy, you'll want to compare quotes and product features – and remember, not all companies sell all products in all states.

### Where To Buy A Longevity Annuity

Longevity annuities are sold via insurance agents, brokers, and financial advisors. It's also possible to shop for a longevity annuity online via our website. We limit our product offerings to only those sold by top-rated insurers (A.M. Best rating of at least A), and our Quote Tool allows you to easily compare quotes side-by-side.

### Consider Your Agent/Broker's Incentives

The Department of Labor has been working for nearly a decade to reform the requirements for giving financial retirement advice. The goal is to ensure that advisors, agents, and brokers put their clients' best interests before their own. Regardless of whether the reforms are implemented, make sure you consider your agent or broker's incentives. How are they compensated? How do they select the products they're showing you? Do they work with only one or a handful of insurance companies? Are they acting in your best interest?

### Compare Quotes Apples-to-Apples

Some financial products are too unique to be compared to one another, but this isn't the case with longevity annuities. You should be able to see quotes from different carriers that are exactly the same in all major respects except two: price and credit rating.

### Credit Ratings Matter

It can be enticing to just go with the company that offers the highest payout, but be careful. The value of a longevity annuity is undeniably linked to the claims-paying ability of the insurance company. The insurer needs to be around at least as long as you are! Buying from only highly-rated insurers is the way to go.

# Longevity Annuity Guide

## Consider Buying In Chunks Or As A Subscription Over Time

If you're still years away from retirement, are optimistic about pricing improving, and/or would like to diversify across carriers, you can buy longevity annuities in pieces over time. Keep in mind that, all else being equal, waiting to buy will reduce the amount of income the insurance company can offer. In addition, the pricing usually isn't quite as good at smaller purchase sizes.

## Understand The Difference Between Qualified & Non-Qualified

The decision to buy a qualified vs a non-qualified longevity annuity is most likely driven by where your retirement savings are currently located: in a pre-tax IRA or 401(k), or in the form of after-tax savings. If you use pre-tax savings to purchase a longevity annuity, it will be qualified. Otherwise, the longevity annuity will be non-qualified. Like 401(k)s and IRAs, qualified longevity annuities are governed by Section 408 of the tax code and are subject to the same required minimum distributions beginning at age 70½. On the other hand, non-qualified longevity annuities are not subject to RMDs and thus can have an income start date later than 70½.