Longevity Riders Can Turn GUL Into a Retirement Income Source

By Charles "Chuck" Van Devander

May 16, 2014 — Americans are facing a burgeoning retirement readiness need, as *InsuranceNewsNet* reported in its "Outlook 2014" article in December 2013. Insufficient personal savings, potential shortfalls in anticipated Social Security income and changing demographics are among the factors that seem to point to challenges ahead for many consumers. While annuities have long been among the go-to financial vehicles for their potential to provide a retirement income stream — and may be relevant for a majority of your clients — a lifetime income rider on guaranteed universal life insurance (GUL) may be an appropriate tool to supplement income from other sources.

Given the scope of the need today for flexible, guaranteed retirement income solutions, well-structured longevity riders merit thoughtful consideration. They can be a modest, but important, component of the overall retirement planning process.

Let's take a look at the aforementioned retirement income shortfall; the picture is sobering. As the National Institute for Retirement Security has shared, based on a recent Federal Reserve study, median 401(k)/individual retirement account balances for households approaching retirement were approximately $100,000. The study further said, "This sum is not enough to last through a typical retirement and could easily be depleted in a matter of a few years."

Yet, for many people, retirement may stretch longer than they ever expected, because Americans are living longer. As noted recently on the LIMRA website, "Advisors need to educate clients and potential clients of the strong possibility they will live well into their 90s."

Not only are Americans living longer, they may not be able to reap sufficient retirement income from savings plans offered by their employers. A recent news release from the U.S. Bureau of Labor Statistics revealed that only 49 percent of private-sector employees were participating in a retirement plan (had current coverage) as of March 2013.

While that may be eye opening, what about people who don't have access to traditional pension plans? To cite LIMRA, "according to the Pension Benefit Guaranty Corp., there were 112,000 defined benefit (DB) pension plans in force in 1985. By 2011, that number had shrunk to 25,500 — a decline of 77 percent. The Fortune 100 companies saw a similar decline. In 1998, 90 percent of the companies had a DB plan and by 2012, only three in 10 still had pensions. And most employees aren't saving enough to provide adequate income in retirement."

Meanwhile, defined contribution (DC) plans, which were originally conceived as supplemental savings vehicles, have historically not shown the ability to meet retirement income needs, as pointed out by a recent InTech report on the retirement income security crisis.

Furthermore, as substantiated in a fourth-quarter 2013 LIMRA report, only half of small businesses (private-sector companies with fewer than 100 employees) offer any retirement benefits to their workers. Given the legions of Americans who work for small businesses, many people may suffer financial stresses during their retirement years.

Even among employees who do have pensions of some sort, ample opportunities seem to exist for agents and advisors to educate clients (and potential clients) on ways to supplement retirement income. Only 15 percent of private-sector employees surveyed last summer by LIMRA indicated they were "very confident" that they were saving enough money to last through retirement. It stands to follow that up to 85 percent might be open to learning about ways to augment their retirement income.

They also might be interested to learn that retirement may come sooner than anticipated, and therefore may last longer. A recent LIMRA blog post shared that for "nearly half (49 percent) of all retirees, the date of retirement was dictated by factors out of their control. In fact, only 45 percent said they retired when they had planned."

As the blog explained, "Retiring earlier than planned can have significant long-term consequences. When someone is forced to retire early it could seriously affect their standard of living in retirement. In addition to the loss of a regular paycheck, early retirement also affects employer-supplied benefits, such as health coverage and retirement contributions."

A lifetime income rider on GUL may be of particular value, offering clients affordable protection against outliving retirement income.

What's more, LIMRA noted, "In many cases, retirement is forced on people who are actually pre-retirees. Several years younger than a typical retiree, the pre-retiree may not be eligible for Social Security benefits or a reverse mortgage."

Therefore, a lifetime income rider on GUL may be of particular value, offering clients affordable protection against outliving retirement income. This type of rider provides the flexibility to transform a portion of the life insurance benefit while policyholders are still living, to provide a guaranteed stream of retirement income. The funds available can be used for virtually any need, such as helping to defray medical expenses, mortgage payments, or the cost of assisted living for a spouse or parent. Keep in mind that guarantees are backed by the claims-paying ability of the issuing insurance company and that longevity riders add to the cost of insurance.

There's no question that living benefits on life insurance have the potential to help fulfill needs. Further, you've almost certainly made note of the growing prevalence of longevity riders in recent years. But, for decades, access to accumulated cash values in certain life insurance contracts has helped Americans fund their needs as well as their dreams.

As LIMRA shared in its September 2013 report titled "The Facts of Life and Annuities," in 1953, Walt Disney borrowed from his life insurance, sold his vacation home and borrowed money from employees to fund Disneyland, his first theme park.

With some longevity riders available on the market, clients can select the living benefit and then cease it during payout if they decide they no longer need it and want to maintain a life insurance benefit. If they stop the living benefit, they have the option to restart it at a later date.

As noted recently on the LIMRA website, "Advisors need to educate clients and potential clients of the strong possibility they will live well into their 90s."

Unfortunately, however, not all consumers are aware of the key role that life insurance, particularly longevity riders on GUL contracts, can play in augmenting retirement income. According to LIMRA's 2013 Insurance Barometer Study, only 42 percent of recent survey respondents indicated that one of the reasons for owning life insurance was to supplement income.

That's where trusted agents and advisors have the potential to move the needle. Your clients and prospects in the life insurance and retirement planning space may not have aspirations to launch a world-renowned theme park, but I believe they have needs and dreams close to their homes and hearts. For many of those consumers, access to a guaranteed stream of supplemental retirement income may make a very positive difference, indeed. ■

Charles "Chuck" Van Devander is senior vice president, advanced marketing and conceptual product strategies, for AIG Global Consumer Insurance. Chuck may be reached at chuck.vandevander@innfeedback.com.