REPRINTED FROM

LIFE & Health Advisor

LIFE & Health Advisor, P.O. Box 613, Walpole, MA 02081

The Journal for the Life and Health Insurance Industry

Focus on Retirement Planning

Income Insurance: Selling Safe Harbor

by Troy Miller

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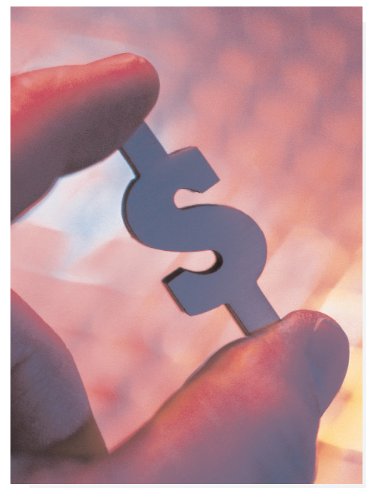
Insurance is that safe harbor to help keep us secure in the event that the unexpected happens. It is a necessary part of financial planning. When we purchase a house, we need homeowner's insurance to protect our valuable asset. We buy automobile insurance to cover us in the event of an accident. Many forms of insurance are available and are justified costs for us to be properly sheltered against perilous events.

As we get older, we tend to focus more on insurance like Medicare supplements or long term care. We also take the time to make sure that our life insurance is properly accounted for in the event that a death occurs. We want the peace of mind that comes from knowing that our loved ones will be properly cared for in our absence. All of these forms of insurance protect us in ways that we consumers see value in because of the security they provide against uncertainty.

As our population ages, and the baby boomer generation faces retirement, the financial risks of retirement fall heavily upon millions of Americans. Although these other forms of insurance are all still important, there is one very crucial area that seems to get left out of the equation: lifetime income.

How important is our income in retirement? It is the very thing we live on. For food, shelter and clothing we must have income to survive. People are willing to insure against financial disasters, but wouldn't the ultimate disaster be to face retirement years without adequate lifetime income? Can income be insured to last for an undetermined amount of time?



The importance of a guaranteed income stream over an indefinite period of time cannot be underestimated. What about inflation? People are living longer while the costs of living, healthcare, and other expenses are all rising. How will rising costs affect your clients' portfolios over time? How much can they withdraw from their retirement accounts and still expect to pay their bills for an indeterminate length of time? Are they at risk of outliving their savings? What can financial planners do to help them stay financially secure?

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Lifetime income planning may be the answer. In this new era, your clients may want to consider buying a lifetime income annuity to supplement their Social Security or pensions which cover their primary expenses in retirement.

With primary expenses covered, the impact of volatile markets, negative effects of inflation, and the depletion of retirement accounts from withdrawals may be lessened. In other words, your clients can have insurance for their income.

Lifetime income annuities have been around for a long time. In an aging population, our challenge is to tell the story of how these products can insure our clients' retirement. With increasing life expectancies, it may be more important than ever before.

You can explain to your clients that buying an income annuity is almost a mirror image of life insurance. For a lump sum of money now they can purchase an income stream for life. They can know that the income stream they acquire (based on the claims-paying ability of the company, of course) will provide that income stream regardless of other conditions. It puts a floor on income that can be a very valuable asset for navigating a financially uncertain retirement.

Because a life contingent annuity guarantees a payment for your client's entire life, it usually won't reflect the greatest rate of return during the early years of the contract. Keep in mind that it is insurance designed to provide a foundation during retirement. It insures that if things don't turn out as expected with their portfolio, or they simply live longer than anticipated, they still have an income. The greatest benefit will be in those years beyond their life expectancy when the insurance is needed most.

Concern for the internal rate of return (IRR) should be virtually meaningless in this type of transaction. Many agents lose the sale because they sell the product like other annuities, as an accumulation of assets sale or a return on investment sale. It is insurance and should be sold as insurance.

Sure, agents should check the competitiveness of a particular product and the financial strength of a provider. But competitiveness can be easily determined and discussed with the client as a comparison of payout rates. The IRR simply misses the point when insuring something so important and involved. How many of us care what the rate of return will be on our term life insurance? We don't even calculate such a meaningless value. We were sold on an insurance premise. This is how income annuities should be sold.

Our many baby boomer clients are probably going to need this type of coverage. Agents should reframe the discussion and sell an income annuity as what it is: insurance that provides a guaranteed income for life. ▲

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