
Symetra Solves An RMD Problem

By Editor Test Sun, Jun 7, 2009

Longevity insurance has been tough to sell, partly because of conflicts with Required Minimum Distribution rules. But Symetra says it has overcome that hurdle with its enhanced Freedom Income Annuity.

Symetra Life Insurance Co. has enhanced its Freedom Income Annuity, making it possible for clients who buy it with tax-deferred assets or rollovers from IRAs or qualified plans to defer the income data past age 70½.

Freedom Income is a form of longevity insurance—a deferred income annuity designed to be purchased today with 10 to 15 percent of total savings and to deliver pension-like income in 10 to 20 years. By deferring payment and/or by making the contract life-contingent, a pre-retiree can purchase future income at a significant discount.

With the “patent-pending” enhancement, contract owners can use qualified or non-qualified money and select a date up to age 94 to begin collecting income. With lifetime income needs taken care of, the client has flexibility with the remaining portfolio. The fixed payouts can continue for life or a period certain.

“Previously, if a client wanted to use tax-deferred money for Freedom Income, or other longevity products in the marketplace, payments had to begin at 70½,” said Rich Lindsay, senior vice president of Symetra’s Life and Annuities division. “Because longevity insurance provides guaranteed money for the later years of retirement, extending the age when payments begin is an important option.”

As for the enhancement, “We created some liquidity in the product,” Lindsay said. “If you reach age 71 and aren’t scheduled to take income until age 75 or 80 or 85, we will let you have whatever liquidity you need to pay your RMD. As of now, we’re the only company doing this.”

There is some ambiguity in the RMD rules, he said, that would affect those who used a portion of their qualified savings to buy an income annuity whose payments didn’t begin until after well after age 71, he explained. unclear

Longevity insurance by definition offers income at a significant discount. For example, a 55-year-old man would pay about \$50,000 today for an income of \$2,500 a month for life starting at age 80 using the Freedom Income contract. If the same person waited until age 80 to buy such an income, it would cost about \$230,000 at today’s rates, according to Symetra’s data.

For someone with \$500,000 in investments, for instance, this type of contract would tie up a relatively small portion of the owner’s assets while allowing him or her to spend his remaining \$450,000 more freely or invest it more aggressively between retirement and age 80. To get comparable protection against the risk of living to 85, 90 or beyond, the individual might have to set aside a reserve much larger than

\$50,000.

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