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New life insurance concept: Heirs get installment payments over 5 to 30 years

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What will your beneficiaries do with the life insurance you leave to them? I'll bet that's a question you haven't given much thought. The idea of life insurance is to protect those who depend on you. And most of the discussion focuses on leaving "enough" money to offset your absence, at least in financial terms.

But few pause to think about what their heirs will do with the cash that is paid out, tax-free, at your death. You probably intended to create long-term financial security, but your spouse may have no experience at managing money and might fall into the hands of an unscrupulous financial adviser. Or your adult children who are beneficiaries might decide it's time for that new sports car or an exotic vacation.

The possibility that the payout from your hard-earned insurance premiums won't be appropriately used by your beneficiaries should make you cringe.

Installment payout life insurance

That's why a new concept has recently been developed by the life insurance industry: installment payout life insurance.

Instead of receiving a million dollars in one lump sum, you can plan for the money to be paid out over five to 30 years in amounts of your choice. For example, half of the million dollars in cash could be paid immediately, with the balance stretched out over the next five or 10 years. Or you could direct the insurance company to pay it out in equal installments over 10 years.

The added benefit of structuring your payouts is that the premiums are a lot lower — as much as 50 percent lower, depending on the payout plan you choose. That's because the insurance company will get to keep — and use — your money over a longer period of time before it is all paid out.

Installment payout life insurance lets you do one of two things: Save money on your insurance policy or buy much more life insurance for the same amount of premium dollars that you would pay on a traditional life policy.

Save money on premiums

For example, a 40-year-old man in good health could purchase a $1 million, 30-year level term insurance policy for a premium of $1475 annually. That policy would pay out $1 million in a lump sum at his death. But if instead he chose to have the money paid out in equal installments over 20 years, the annual premium would drop to $1170 annually, a savings of $305 per year.

Or if he was prepared to pay the original higher premium every year, he could actually purchase more life insurance — a total of $1.325 million in benefits, for the same money he is paying on his traditional term insurance. Plus, if he has young children, he has the assurance that the money will be paid out over the years, including the higher-cost college years when his heirs will need the cash.

This installment payout program not only works with term insurance, but with more traditional cash-value insurance as well.

Take a 55-year old-man who is considering the purchase of a $1 million guaranteed universal life policy. That means he will pay an annual premium of $11,771 every year — and the insurance is guaranteed to stay in force until his death.

If instead, he chose to take a 20-year installment payout for his heirs, who would receive $52,500 annually for 20 years, his annual premium payment would drop to $9362 — a savings of nearly $2,500 a year. And, he would know that his spouse or other surviving heirs would have an income that would not be misspent or poorly invested, as might happen with a lump-sum payout.

Or he could buy even more life insurance for his current premium — an additional $320,000 in benefits, a nearly one-third increase in his life insurance for the same dollars he is paying — just for creating the installment payout.

I’ve used a man in these examples, but the same structure works equally well for women. And because of their greater longevity, the premiums are typically even lower for women.

When it works, when it doesn’t

Of course, you’ve figured out one of the drawbacks: Delaying payouts exposes the payout your beneficiaries will receive to the ravages of inflation, while letting the insurance company invest your money for a longer period. And that is why the premiums are lower with this type of delayed payout. To hedge against the reality of this inflation risk, you may want to consider purchasing a slightly increased amount of installment payouts.

(A small portion of this investment income may be included in the payout to beneficiaries, creating a bit of taxable income to each installment payout.)

This type of installment payout planning works especially well for families with a special needs child, who will need a planned stream of income. The policy can be purchased in a trust so it doesn't affect eligibility for other benefits.

Installment payouts could be used for money that is to be left to a charity, which would receive an installment payout contribution in your name every year — keeping your memory alive. And, there may be applications of a creative installment payout to protect your mortgage at a lower insurance cost.

Of course, stretching payments over the lifetime of the beneficiary and children of the beneficiary helps with estate planning. So this insurance should be purchased after discussion with your attorney.

These new policies are being offered by some of the largest life insurers.

Ted Bernstein, CEO of Life Insurance Concepts, Inc., Lifeinsuranceconcepts.com, who brought this new product to my attention, calls it "the most important development in the life insurance industry since Universal Life."

Bernstein says: "This new installment payout puts the power of choice where it belongs — in the hands of the insured."

It's definitely worth considering. And that's surely The Savage Truth.
